A

NEW DEPARTURE

IN THE DOMAIN

OF

POLITICAL ECONOMY.

BY

ARTHUR CRUMP.

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1886

Edwin R A Seligman

7.80

NOTICE

TO

READERS OF THIS VOLUME.

Being sensible of the many shortcomings in the following pages, the author intends, as he may have leisure, to pursue this subject with the object of further bringing to light the hidden economic changes which time and modern necessities and inventions are introducing into trade and commercial operations. He will, therefore, be glad to receive, under cover to Messrs. Longmans, Green, and Co., the publishers of this volume, any facts or statistics coming within the range of this subject which his readers may feel disposed to send him. The source whence such information is derived will be acknowledged in Part II *of* 'A New Departure in the Domain of Political Economy,' *unless it is otherwise expressly desired.*

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PART I.

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INTRODUCTION.

When we give this book the title of "A New Departure in the Domain of Political Economy," we do not intend to imply that all the economic changes involved in that new departure are of yesterday, or a year, or even ten years ago. What we desire to direct attention to is the more marked character of the changes of late years in the economic principles upon which the wealth of the world is being acquired, distributed, and accumulated, and the effects thereof, as compared with that period of the commercial history of the world when none of the more modern forces and facilities which we refer to in our opening chapter, were available. The subject which we propose to investigate is a large one, no doubt, and the design of far-reaching scope. Volumes might be filled if we commenced at the trunk of the subject and worked out each branch twig, and leaf, till all that could be said was exhausted. Such a task being the work of a lifetime, we propose, as far as we are able, to look only into the main influences exercised

by the new agencies, as far as we can see them, which have replaced the old, with a view, if possible, to ascertain whether the apparent progress we are now making is still of a sound character, whether it is partly sound and partly unsound, or whether there seems to be a larger proportion of the elements of decay in the commercial machinery of this empire than was the case formerly. We are not at all of the pessimist or alarmist school, whose mental vision is blinded to everything but the gorgons of disaster with their snaky hairs, and whose steps seem to be irresistibly fascinated in the direction of "*malorum immensa vorago et gurges.*" At the same time it is the duty of every one, as far as he has the opportunity of observing, to point out what seem to him to be defects in the particular department of business, art, science, law, or whatever it may be in which his lot is cast. Fear of being wrong either in premisses or deductions should never deter people from giving their opinion. Nobody can be always right.

It would appear that the stocks held of all commodities have permanently diminished. The extension of telegraphic communication renders the holding of large surplus stocks unnecessary and unprofitable. This change having occurred at a time when over-production had been carried on to an unprecedented extent, furnishes some explanation of the prolonged stagnation among producers. The supply must consequently be greatly

diminished below what was formerly kept in stock before there can be a new recovery in wholesale prices. Smaller stocks of everything now held, means less capital required to work with, simultaneously with larger central supplies in the form of bank deposits. Individual savings are thus placed farther out of reach.

As civilization advances and individuals become generally better off their sons are less disposed to endure any prolonged period of business apprenticeship—all, in fact, want too soon to be principals, and support a style of living which those only who have really a right to that distinction are entitled to enjoy. There is consequently a chronic tendency to labour less and spend more, an inclination which is fed and encouraged by the invention of machinery for doing so many things previously done by hands and feet.

A Paris correspondent of a London newspaper wrote in June, 1878, "No one can visit the Exhibition without remarking that, at all events as regards manufacturers, the various nations of the world are more and more on a level."

The spread of education and the higher standard to which it has been raised has been the means of transferring the control of commercial operations more into the hands of those only interested in a secondary degree in the results. The sons of wealthy mercantile men of these times go to Eton, Harrow and

Cambridge, and by the time they should be preparing to take an active share in their father's office they have imbibed tastes and contracted habits which render the routine and monotony of regular attendance to the dry details of business insupportable.

The following remarks were written by Dr. Waldstein in an article in the 'Nineteenth Century' for June, 1878, on 'The Social Origin of Nihilism and Pessimism in Germany.' "The financial and commercial whirlpool of our time is the enemy of the former contented, happy fulfilment of duties. Everything is uncertain; everybody is excited. The fault chiefly lies in the credit system. Business in general is not so dependent on personal exertion and immediate ability as it was in former days; but there are numerous general fluctuations, impossible to foresee, which, environing the simple enterprise, press upon it and influence it. It is not so much a struggle with an individual difficulty, or a single group of difficulties, as with universal difficulty, on every side. Hence there springs a state of uncertainty, unrest, and worry. The deppressing feeling that weighs down a man when he feels that his obstacles may lie beyond the power of his will, is very far from being healthy. Just as those nations who dwell in lands where man is, to a great extent, at the mercy of nature, become timid and fatalistic, so the business man of our day cannot help feeling his

want of controlling power, and comes to look on success as luck."

The prolonged commercial disturbance through which the principal countries of the world have of late years been passing is no doubt due to some extent to the existence of so many depreciated currencies side by side with the great fall in silver. Before the great fall in silver occurred the circulating medium of the world went on two legs. The great operators in arbitrage business now tell us that it goes on one leg. Hence, much of the trouble through which we are passing. Depreciated currencies, like import duties, increase the cost of the goods imported, but the importer suffers less than the consumer. In such circumstances the retailers often increase prices and *maintain them*, the increase being out of proportion and more than will compensate for the rise in the rates of exchange. Peru suffers from this evil at the present moment, the bank note being worth only half what it promises to pay.

With reference to over production, on which we have made some remarks farther on, we may state the following fact: In 1878, it was shown that the joint-stock cotton mills of Lancashire, in which the working class hold so many shares, had been worked at a loss during the past two years.

A feature in the new departure, to which we refer more in detail farther on, is that the extension of the

telegraph has, for a long time past been gradually placing both large and small traders and also consumers more upon a level as regards a knowledge of the varying circumstances affecting all markets. The extension of the telegraph has tended also to equalise value all over consuming countries, which diminishes the extent of the fluctuations in prices. Distance now is, practically speaking, no object if consumers can pay for what they want. A want made known for the great staples brings a hundred offers by wire from either producers or holders on speculation, and deficiencies are made good as soon as discovered, leaving little room for a rise in price unless the supply generally fails, or circumstances give rise to an unexpected general increase in the demand.

It is a feature in the corn trade of England that owing to the development of "ports of call" the actual export from this country has sunk to an insignificant quantity as compared with the consumption.

The opening of the Suez canal and the facilities afforded by the telegraph caused a complete revolution in the system of conducting business in Mincing Lane.

The producer and consumer now stand face to face, and one of the greatest economic revolutions of modern times, the expulsion of the middleman, is being consummated with rapid strides. The telegraph has hardly begun to exercise its full power

over international trade when the new-born powers of electricity have rushed to the front, and no doubt before long will make the huge gazometers of modern cities as useless for lighting purposes as the Egyptian pyramids. Vivid imaginations, indeed, picture the future of London freed from its sombre garb and roof-ugliness, as the showers from Heaven clean off the last remnants of coal dust, and the architecture of the houses is improved by dispensing with the chimneys.

As an instance of how some persons are benefited by economic revolutions which ruin others, we find that whereas formerly the whole crop of Bengal indigo was sold in Mincing Lane, since the opening of the Suez canal only about one third comes to this market. The same remark applies to silk. We are on the road possibly to further important changes. The merchant in China, India, and the West Indies has yet to enter into direct relations with the grocer in Whitechapel.

It is interesting to go back some twenty-four years or so and compare the indebtedness of the principal states of the world with what it is, so far as can be ascertained at the present time. With this object we will take the summary of the debts of foreign states from 'Fenn's Compendium of the English and Foreign Funds' published in 1854, and compare it with that of the 'Financial Register and Stock Exchange Manual' of 1878.

States.	Amount of debt in 1854.
Austria	£211,000,000
Baden	7,000,000
Bavaria	14,117,000
Belgium	26,000,000
Bolivia	521,000
Brazil	12,392,000
Buenos Ayres	2,500,000
Canada	1,500,000
Chili	1,784,900
Columbia	6,625,950
Cuba	311,200
Denmark	13,069,000
Ecuador	3,817,000
England	773,923,000
France	233,000,000
Granada, New	7,500,000
Greece	8,250,000
Guatemala	594,520
Hamburg	4,000,000
Hanover	5,174,000
Holland	102,451,000
India	48,000,000
Mexico	10,500,000
Peru	9,953,833
Portugal	19,121,800
Prussia	33,500,000
Roman States	17,152,000
Russia	68,000,000
Sardinia	23,000,000
Saxony	6,223,000
Spain	70,000,000
Sweden	450,000
Switzerland	160,000
Turkey	5,000,000
United States *	10,000,000
Venezuela	3,789,000
West Indies	630,963
Würtemberg	4,850,000

States.	Amount of debt in 1878.
Argentine Confed.	£16,802,626
Austrian Hungary	380,000,000
Baden	14,714,520
Bavaria	35,446,296
Belgium	36,960,960
Bolivia	1,666,000
Brazil	72,000,000
Canada, Dominion	32,240,937
Cape of Good Hope	4,497,108
Ceylon	700,000
Chili	10,323,720
Colombia	4,300,000
Costa Rica	3,400,000
Cuba	1,788,000
Denmark	12,747,000
Ecuador	3,274,000
Egypt†	87,099,250
France	900,000,000
Great Britain	775,873.713
Greece	8,000,000
Guatemala	1,200,000
Honduras	5,990,108
India	140,000,000
Italy	390,024,528
Jamaica	665,644
Japan	28,457,916
Liberia	300,000
Mauritius	1,000.000
Mexico	79,100,000
Morocco	1,200,000
Natal	1,030,000
Netherlands	80,642.409
New South Wales	12,417,871
New Zealand	16,788,737
Paraguay	3,000,000
Peru	38,220,000
Portugal	79,061,780
Prussia	51,427,523
Queensland	7,700.000
Roumania	12,910,173
Russia †	375,000,000
San Domingo	757,700
Saxony	14,289,609
South Australia	3,768,630
Spain	456,733,195
Sweden (*without Norway*)	10,300,000
Tasmania	1,685,700
Turkey	160,000,000

* The Federal debt only. The total debt of all the States, 1 Jan., 1852 was £43,233,550.

† Now largely in excess of this total.

		United States— (£38,558,371 *free*) .	425,000,000
		Uruguay . . .	10,000,000
		Venezuela . .	16,700,000
		Victoria . . .	16,992,582
		Würtemberg . .	34,399,917
Total .	£1,765,550,966	Total .	£4,878,598,152

The public debts of the principal nations of the world are thus seen to have trebled in about twenty-four years, if we put down to Russia the increase of her public debt as a result of the late war. We have therefore the fact before us, that the nations of the earth with one or two exceptions, have run heavily into debt during the period referred to. Many critics jump at once to the conclusion, that the same thing must happen to a state which thus involves itself, as is ordinarily experienced by the individual. Some people hold the opinion, that in lending her surplus capital to foreign states, England has furnished them with a weapon for destroying her commercial supremacy. Some of our best thinkers do not entertain this view. Mr. Robert Lowe said the other day in the ‘Fortnightly Review “The way to grow rich is not to plunder and ruin other people, but to assist them in becoming rich themselves.” What England has to avoid is the danger of forsaking the paths which have hitherto enabled us to take the lead. One way in which we can materially injure ourselves by affording poor nations the means of competing with us in certain branches of

industry is by trying to undersell them with inferior fabrics *i.e.*, with fabrics which are not what they used to be in quality and are very dear at the price. This is what we have been doing in some important departments with evil results to our own people. The losses which this country is believed to have sustained through the foreign loans launched during the past twenty-five years are greatly exaggerated. People make a great deal of fuss about losing a little money. The commercial instinct of Britishers of considerable means is too strong for them to be trapped to any grievous extent in such matters. One great evil of lending much money to ill-managed Foreign States is, that in proportion as their subjects are crushed by taxation to pay the interest, so does their power to purchase our manufactures diminish. The evil of the lending has been the want of discrimination which has characterised it. If England transfers so much purchasing power to Russia and the Czar spends it in war, the probabilities are that that application of a portion of the realised wealth of the world will be to wasteful purposes. If Russia becomes a defaulter England must obviously lose a part if not the whole of that capital. But if that wealth is applied to the peaceful development of her resources the lender benefits as well as the borrower. It is, of course, certain that a very large proportion of the money which Foreign States have borrowed has been reproductively employed. No one who

has travelled abroad can fail to see what marvellous strides continental nations have made, in spite of the wars, during the last twenty-five years. Riches are, however, apt to demoralize those who possess them. States which are always adding to their taxation, while their revenue does not increase, have before them what befell the Roman empire under similar circumstances. Danger from that quarter does not, however, threaten the British empire at present; but a nation is made up of individuals, and if those individuals live and trade beyond their means there is a hidden taxation which is felt to a very crushing degree. We have to guard against this insidious canker, which, like certain diseases of the body, works its way up until the seat of government, the brain, is reached, when death ensues. The great evil of the borrowing of the present day, both public and private, is that the loans are so seldom paid off. We are creating too many banks everywhere, the result of which is that borrowers ring the changes on them with an ever increasing crescendo in the peal until, as in the case of the Western Bank of Scotland, Royal British Bank, Bank of London, and the City of Glasgow Bank as the greatest feat of all, the ringers, bells, and belfry all tumble down together. We are largely suffering through the illegitimate efforts to keep going enormously augmented machinery for lending money and giving credit, when there is not real work in

the existing condition of the trade and enterprise of the world for half of it to do.

A NEW DEPARTURE

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CHAPTER I.

A NEW DEPARTURE IN INTERNATIONAL TRADE.

THE idea which has given rise to what is contained in the following pages is embodied in the heading of this chapter—"A New Departure." Our experience, such as it has been, of the ways of modern business, showed us on reflection that a very great change must have come over the commercial world since the more modern influences, such as the employment of steam for driving machinery both stationary and locomotive, the telegraph, limited liability companies, the increase and spread of wealth and manufacturing power, the advancement of economic science, &c. &c., had revolutionized the commercial notions whose foundations commenced to loosen with the disappearance of stage coaches as the principal means of locomotion. What

we shall attempt to unfold is, as regards the facts upon which we base our deductions, known to many persons as a matter of course. There are, however, among those who know, many who scarcely realise how extensive have been the changes going on around them, and to what an important degree the system of carrying on international trade has been transformed by the introduction of the new influences, among others, which we have mentioned. In order that we might get an accurate and not a fanciful picture of the way in which business was conducted, for instance, between England and India forty years ago, so as to compare it with to-day, we asked a friend who had long since retired, but who showed considerable interest in our little scheme, to put in black and white briefly his experiences. He was kind enough to do so, and the following are his remarks.

"In 1837, when I entered upon my mercantile career, business was at its zenith of prosperity, so much so that to obtain an entrance into a merchant's counting-house was equivalent to an appointment in the Government service. The youths so introduced were of eminent respectability, high honour, and never got any pay. My introduction was to a cotton broker, from whose office my services were transferred to an East India firm, who sent me to their establishment in India. The profits of the firm were some £30,000 or £40,000 per

annum. Princely establishments were kept up, and business was so even and regular in its course that the men had to eat their bread in the sweat of their brow, but by no means in the tearing of their minds. I say business was so *even and regular* that previous to hazarding a heavy amount on a mercantile adventure, a small one was made, the invoice sent, the account sales received, the ratio of profit practically ascertained, and then, even then, there was plenty of time to make the larger venture.

"When this larger venture was made any neighbour who had unemployed capital was welcome to take a share in the joint venture and participate in the joint profit. The story of Whittington and his cat illustrates this. Every domestic servant added their mite, and the profits were sometimes tenfold, not 10 per cent., but tenfold. You see, all the trade was carried on by men on their *own* capital, for the trade of money lending had not altogether lost its disreputable character. So trade was never overdone; no one ever heard of reckless ignorant over-trading on one's *own* capital. It was illegal to take more usury than 5 per cent., so a man preferred taking an interest in a venture yielding him 50 per cent. to usury at 5 per cent., even though that was apparently free from risk.

"In 1854, when the usury laws were repealed it became legal to charge as high a rate as the lender chose to ask and the borrower chose to pay, and so

banks increased, giving, as they termed it, facilities to commerce, *i. e.* facilities to men to trade beyond their means.

"If you only consider the temptation to a man to borrow at 5 per cent. and trade to make 50 per cent., you will understand the marvellous expansion of trade, but this expansion was inflation on borrowed money, and gradually the trade got into the hands of covetous and greedy men.

"When a man with £10 could trade to the extent of £100, trade was overdone, and the profits fell from 30 per cent. to 5 per cent. Then the old merchants became commission agents and ceased to take any interest themselves in the venture, and became merely agents and usurers, though they greatly dislike the term from the taint which still hangs about it.

"Profits being so reduced, the security as well as the remuneration fell off, and induced men greatly to prefer the interest without risk to the interest with risk, and so the wealthy men retired, leaving the money in the firm on loan, advertising that their interest and responsibility ceased, whereas it was only the *latter* that really ceased.

"Banking having become safer than trade there arose a bank mania, and these new concerns entered into such fierce competition with each other that they forced into mercantile existence mushroom houses, led by youths of no experience, whose capital

consisted of a gambling instinct, recklessness, and just sufficient money to make a margin. Under this régime, trade ran riot. People called it *progress*, and spoke of leaps and bounds, and so it is—a hop, skip and jump into the chaos where we now find it.

"I attribute the present desolation of trade to the unwholesome competition between ignorant and reckless men with capital not their own, and I expect nothing better than this, viz. that as the capitalists have chosen so to use their wealth, regardless of consequences, they have killed the goose that laid the golden eggs. Now they complain that the trade has been unprofitable, the money lost, and that there has been no fund of profit out of which to pay them their (so-called) interest; that the payments have necessarily been out of their own capital, and that this being exhausted, there is nothing left but the firms' bills, representing *nil.*"

The new departure was therefore the facility given by banks unduly to extend commerce.

The possession of capital only in business does not always ensure success. Experience alone is sometimes more valuable, as may be gathered from the following anecdote:—A gentleman walking in the streets of New York met a friend—

"How do you do! But I left you in London a few weeks ago. What are you doing here?"

"Oh! I am going to join a gentleman in business."

"But I thought when last we met you told me you had no capital."

"True, my dear sir. But the gentleman who is to be my partner has the capital."

"That is rather a one-sided affair, is it not?"

"Not at all! I have the experience and he has the capital. By and by he will have the experience and I shall have the capital."

The foregoing remarks show briefly in one important department of business, to those who are familiar with the practice of to-day, how altered is the character of international trade. The chapter which follows this will show in four different branches of trade in its highest form in what consists the new departure, the information we give having been procured direct from the markets themselves. What we have as a nation to ask ourselves is—Are we allowing our great wealth to be the means of injuring gradually our commercial position? This is an alarming proposition, no doubt, but it is no use to turn our faces away from what is disagreeable in preference to rooting it up, even if that deracination cost us the sacrifice of some of our pleasures and comforts. If what we have said farther on in the chapter on the influence of joint-stock limited liability companies on production be well founded, there is at least good reason for more care being exercised in launching these institutions in the future than there has been

in the past. Their effect upon production as they exist now is a part of the new departure, and it concerns everybody who may be called upon in the future, when prosperity returns, to subscribe for shares in new joint-stock companies, to ask themselves whether in so doing they are promoting the welfare of the community and not assisting in undermining it.

Experience shows us that old *boná fide* merchants in a large number of cases have become mere commission merchants, evading the risks which they would not incur themselves, while by so doing they have encouraged others to enter recklessly into competition for the profits of trade with comparatively nothing to lose. If the banks are being used to any material extent for the fostering of business on these principles, which there is no doubt they are, it is quite evident that we have departed from the old system by which we made profits and kept our capital, and have adopted one by which we appear to make much larger profits, but in reality are losing, not only some of our capital, but our credit as manufacturers. If the hundreds of millions of money laid down in machinery cannot be kept going it is a loss of capital in the most alarming form. We hope it will not be so; but we must watch and guard against it, for the new departure contains insidious elements, dazzling on the surface, but having the seeds of corruption

within, which grow and multiply unseen, unless cauterised out of existence by uncompromising reform. These seeds in their most dangerous form exist in the shape of unsubstantial firms whose moneyed partners have taken out their wealth, leaving in many cases their name to be used in the credit market for what it is worth. Such a state of things as this means, not only trading upon insufficient capital and increasing the operations by making that capital the basis for raising more, but it implies trading almost entirely with other people's money. All the weak firms on a system like this must, for the most part, be supported by the banks and discount houses; in other words by deposits repayable to a large extent at a week or a fortnight's notice, which is the most dangerous business banks can do, for failure brings them probably no more in the pound than we are accustomed to in these times, viz. 6d. or 9d. No second dividend is announced, because the debtor says it hurts his credit in the future to refer too often to his former failure. To compensate for the losses incurred through these failures lenders generally have to extend the area of their operations and lend every penny they do not immediately want, so that in this great City of London, if £100,000 is required for any purpose all in a hurry, No. 1 runs after No. 2, No. 2 after No. 3, No. 3 after No. 4, and so on, depending upon circumstances, before the money itself is got hold of.

Very often it cannot be had at all, except at the expense of making the bill broker, who uses the bankers' surplus balances, go to the Bank of England, which is nearly aways the last resort because the dearest.

The real fact is, as regards this hypothetical case, that there is no cash at all available, practically speaking. To prove this we have but to state, what most readers of these subjects know, that an actual demand for that amount of cash has often in given circumstances raised the value of money at this centre 1 per cent. The Bank of England keeps the spare cash, in its larger sense, and when we talk of No. 1 running after No. 2, &c., we mean that the credit of those who are applied to in vain for the £100,000 is exhausted for the moment. Banks and discount houses are more correctly styled if we call them depositaries of liquid or floating purchasing power, which is a much more comprehensive term with highly civilised communities than the word money. A man may actually, and in the technical sense, have but little money, and yet be immensely wealthy, and wielding vast purchasing power. He possesses the power of buying money, but money being a valuable commodity, like steamships, locomotives, or houses, he keeps all he possibly can employed. If, in view of some possible contingency, a possessor of large fixed capital converts it into floating or liquid

capital, that he may have at command a large amount of cash at any moment, he realises securities in whatever form he may possess them, and deposits the proceeds in a bank or discount house. No cash need necessarily come into question at all. He has bought some one else's purchasing power, and deposited it with an institution whose business it is to make what use it can of it consistently with its engagement to convert that purchasing power into cash, if required, at the demand of its owner.

The new departure, in respect of the bases of business, in other words, the hard cash which is the capital or pivot round which the trade revolves, is seen, therefore, to be altered in a dangerously extreme degree in one direction, while the operations of which that much smaller cash capital forms the basis have been extended to a dangerous degree in the other.

The two figures on the next page are intended to illustrate diagrammatically the result of the new departure. Fig. 1 shows the sound and legitimate system upon which business should expand. Starting from the bases, we have first, in Fig. 1, a double growth, one upwards and the other downwards, as in the case of trees. As the top expands the bottom must spread out and get a better hold of the earth. No. 1 upwards expansion is counterbalanced by No. 1 downwards outspread; No. 2 expansion by a further outspread; and No. 3 expansion upwards

by a still further spread downwards of the base No. 3.—This is after the course of nature, and is legitimate and sound development. The Fig. No. 1 shows the mode of conducting trade when merchants operated with their own capital, which was

Fig. 1.

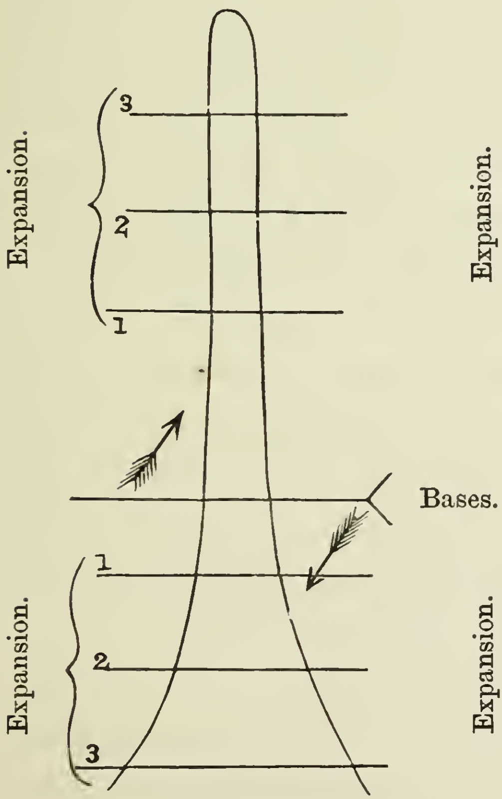
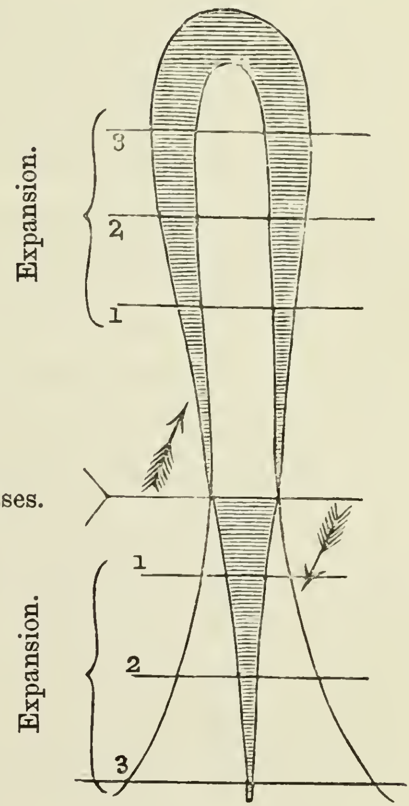


Fig. 2.



engaged in promoting the expansions upwards. Not operating with other people's money they had a prime interest in not losing it, and accordingly extended the base by preserving sufficient tangible capital for the extending growth to rest on.

Fig. No. 2 represents business conducted on the new departure system. The shaded portion of the figure shows an increased upwards expansion beyond the growth exhibited in Fig. 1 in the three degrees; but instead of a correspondingly increased downwards outspread there is a contraction until we arrive at a point. This may be said to illustrate a state of inflation at the top and contraction at the bottom, a condition of things which immediately precedes a commercial crisis. Credit is strained to the utmost, and the available floating capital exhausted to the utmost. These are very plain and well-known truths, but the commercial community shut their eyes to them. We have had two or three commercial crises in which the collapse has been very considerably aggravated by this new departure system, but a fresh start has been made on each occasion with very little rectification of the errors which form the weakness of the foundation upon which the trade machinery is erected, and some authorities say they cannot be rectified without overthrowing much of the economic development which enables the day's work to be got through in the time.

The following is an interesting memorandum on the principles of supply and demand, as illustrated by the course of the cotton market as it has affected the trade between India and England:

"In their most simple form, supply and demand may be illustrated by food and hunger. Hunger is a natural demand, food is its natural supply; and it is easy to observe how a delay in the supply aggravates the demand and intensifies it, and how beautifully a judicious supply relieves it and ultimately annihilates it, whilst a continued persistence in forcing food after the hunger is satisfied, is met by rejection, and if continued, by abhorrence.

Glutted markets and forced sales are the commercial terms which are used to express this condition of the body politic. Its natural wants having been satisfied, and supplies pouring in beyond the power of consumption, plethora follows and sickness, which can only be relieved by stimulating an unnecessary and unwholesome consumption, or by re-export, which is the polite expression for the sickness or vomiting of the market.

A wordy war has raged among political economists on the question of whether supply should precede demand or follow it.

Notably did Mr. John Gray challenge the world for one hundred guineas to refute his arguments that "supply is the cause of demand," deeming that the view taken by others that demand caused supply was the fertile source of all the evils that pressed so heavily on our social fabric. And yet,

after all, the question of precedence cannot be solved. Some men may hold that hens come out of eggs, and others may be equally positive that eggs come out of hens, and in fierce contention narrow the issue as to whether the first hen came out of an egg or the first egg out of a hen. The discussion is unprofitable; it suffices us to know that the one is intended for the other, and it is immaterial which is placed first.

A poor man who has but two meals a day feels hungry for dinner before dinner-time comes, but when it does come pleasure comes with it. A rich man who has four meals a day finds his dinner-time come before his appetite, and the lack of hunger entails the necessity of substituting artificial relishes. Well, then, Is hunger a blessing or a curse? We had better imagine it to be the latter, as we are told that certain blessed ones shall neither hunger nor thirst any more. Of course, we can understand from that that want unsupplied is hard to bear, but on the other hand, there is a measure of want which is requisite to give full enjoyment of the pleasure of having it supplied. In this lies the true secret of comfort and prosperity, whether of the individual or of the community.

There must be a healthy demand, and there must be a sufficient supply; excess of either one or the other is apt to induce an unhealthy condition.

Applying these principles to commerce, it will not be difficult to trace the causes of prosperity and disaster.

The simplest form of commercial supply and demand is exemplified in the business of the retail tradesman whose capital is his stock-in-trade, and who, observing the daily demands upon it, replenishes it accordingly. No foresight, no abstruse calculation is required here; it is the hand-to-mouth principle, severe in its simplicity. His own remuneration consists in an equitable increase in the price, his retail profit being the reward for his service. He never requires to trouble himself about the market price, for what he pays that he charges, and however it may affect the consumer or the producer, it does not affect him.

A complication arises when he adds speculation to his business. Without this complication he occupied a position similar to an agency, his profit being his commission; but when speculation was added to it, he became more like a principal, his remuneration consisting in his power to buy cheaply and his power to sell at high rates. He no longer *accepted* the market rate, he *made* the rate. And although it is not easy to draw a moral line between retailing and trading, a line *does* exist, and it may be said to exist where the *cheapness* of the purchase benefits the agent and not the consumer.

A further complication, and a much more mischievous one, arises when the speculator, by the magnitude of his operations, has in himself the power to raise or depress prices unduly, and uses that power for his own aggrandisement. There is no human law against such action, and, therefore, men will be found to practise it. An eminent writer has defined the expression "To become wealthy" as "To establish the maximum inequality in one's own favour." The definition is as disagreeable as it is true, and that is why we find so many talented men forming combinations and syndicates for the purpose of raising and depressing prices for their own benefit.

The merchant differs from the trader, in so far as nations and not individuals are his customers. He works not for the present but for the future. Calculation as well as observation are his province, and when he buys he has to do so when he can, and not always when he wishes.

Foresight and intelligence are essential to a proper performance of his duties. The political atmosphere and the concord of nations have more to do with his work than the wills of individuals, and that is one reason why the ranks of successful commerce have furnished better legislators than those of the manufacturer or retail trader.

Liverpool was the great emporium or cotton market, drawing its supply from America, India,

and Egypt, and furnishing a reservoir to supply Manchester and the greater part of the world.

This item of demand was to the Indian merchant of paramount importance. Many of the continental nations drew their supplies of raw cotton from Liverpool, and this they did with a regularity and steadiness that made it a very simple element in the calculation of the demand. Manchester and the cotton spinning districts came in for huge supplies. Upwards of 10,000 bales, opened, cleaned, and whirled into "twist" every day, bore mighty evidence to the industrial power of North England.

In the form of "twist," then, a large proportion of the cotton was exported to those nations who preferred to do the weaving themselves; but by far the greater part had the manufacture completed by weaving as well as spinning, and putting the finished cottons upon the markets of the world, sometimes in the grey and sometimes bleached white.

The home consumption was immeasurably of the greatest consequence, and so the home market was closely watched as one exerting a powerful influence upon the future demand for cotton in Liverpool.

After the home market came the India and China markets, and in these there existed the extraordinary complication that the profitable result of a shipment had very little to do with its being made. The fact was that the tea shipments from China had

to be paid for somehow, and the choice lay between cotton goods direct, opium from India, or bullion. But if the opium or the bullion went from India to China, there still remained the payment *to* India to be made, and this was chiefly done in these Manchester goods. All these had to be taken into account in forming a prospective estimate of the future consumption of cotton goods, as directly bearing upon the prospective consumption of cotton. Supposing our merchant to have made an accurate forecast for six months, of how much cotton would be required for export and how much for our mills, he would then have to turn his attention to the supplies, and he would find that the production of India was too small to exercise any material effect upon prices in England. America was the great field for that staple product. So, first he would have to estimate the probable crop, based upon the observations of many previous years. The prominent points in this were the genial weather or otherwise at the sowing season, again during the bloom, and lastly, during the picking. Above all was watched with intense interest the autumn killing frost, the first of which brought the season's yield to a summary termination. Having estimated this, there was to be deducted from it the quantity that America required for her own use. How much France, Germany, and other European states required, had also to be deducted, and the

remainder showed whether there was enough or not for Liverpool's wants. Generally speaking there was more than enough, under the depressing effects of which the Indian cotton trade languished.

Of the total Indian crop, one half, and that the best half in quantity and especially in quality, was regularly sent to China. Of the quantity remaining and shipped to England, one half again was usually exported to the Continent, so that really only one quarter, and that the very worst, was used in Manchester, and what was there used was principally to furnish bulk and weight to goods made with new Orleans cotton. The term adulteration could not be correctly used, for though the quality was inferior, the substance was still genuine cotton. Manchester all this time made a great clamour about getting more cotton and better cotton from India, but the clamour was most unreasonable, for the best cotton was all sent to China, and we all know that from India's fine cotton was made the muslins of Dacca, a city of Bengal Proper, before Manchester was thought of. Down to the close of the 18th century Dacca had a world-wide celebrity for the delicate texture of its muslins, which, in Eastern phraseology, were described as "flowing water" and "evening dew." The English, French, and Dutch, had large establishments in the place, but since 1801 these agencies have disappeared, while the annual value of the fabrics, under the influence of

British competition, has declined from £250,000 to nothing at all. In many parts the ruins of the place are overgrown with jungle, and are become the haunts of tigers and serpents. Like many other young men, when I first went out to India I was struck with the beauty of the cotton, and for Manchester's sake bought it and sent it to Liverpool. The philanthropy, however, did not pay, and it showed why the resident merchants confined their shipments to the very lowest classes of cotton. Manchester sent out a Mr. Heywood to investigate the reasons why India did not produce more and better cotton, and when I showed him a bale of good cotton and got him to value it, I sent it to Liverpool, and received the account sales at exactly one half of his valuation. But now comes another element. Under a continued depression of the cotton market consumption greatly increased, new markets for goods were opened up, when suddenly there occurred in America the double calamity of an ungenial seed time and an early frost. Such a curtailment of the supply marvellously increased the price of cotton, and then was the opportunity for India to be rewarded for her patience. All the cotton of India was insufficient to supply the wants, and the exchequers of the merchants were filled. It was not oftener than once in five years that Bombay had such an innings, if I may borrow a word from the cricket field, and the profits of the one year

supported her during those of scarcity. The skill of the Indian merchant, then, consisted in his watching the times and the seasons far outside his own market; to watch the regularly increasing consumption, and see how, hand over hand, it overtook the production; to mark, fully six months before it happened, that the time had come for it to pass; then fearlessly to supply the anticipated deficiency from the long-neglected crops of India. It sometimes happened that other combinations were added to swell the benefit, the last notorious one being the American secession civil war.

In all this I have said very little about price. The market price is the finger on the dial that ought to show the relative position that supply bears to demand. And it would do so and save the merchant much mental labour if it were not manipulated, but there are buyers on speculation for the rise, and others for the fall. And besides these there are speculators who do not buy—men whose purchases are nominal—mere gamblers, but whose interests are often quite powerful enough to influence the price.

Let men bet upon the weather and take some one barometer as the standard, and allow a syndicate to have access to the hand, and it would at once become useless and dangerous to draw meteorological observations from it; and so it is with price. It is so much affected by the manipulations of gamblers that its utility as a guide is entirely destroyed.

There is another element which we must not omit, viz. the current value of money. Gold was chosen for money for one reason because its value was more constant than that of any other commodity, but we know too well that under our present financial systems there is no commodity which fluctuates more wildly; and there is frequently to be seen the anomaly of a whole nation at a standstill, its population idle, its manufactories stopped, its warehouses full and its people naked, from a financial crisis or a money difficulty.

The fluctuations in the price of cotton are more dependent upon the money market than any other, and without an intricate knowledge of the hidden springs of this, the best matured and most boldly executed commercial venture may come to an untimely end by a financial crisis.

And I say this most advisedly. During a seventeen years' residence in India I had but three really good years. The first passed and taught me what to take advantage of. The second passed and taught me what to avoid. Who in the cotton trade does not remember 1857, the anticipated cotton famine, and the financial storm that swept away the Western Bank of Scotland, but which saved Lancashire? The last was 1862. The profit upon cotton was then three hundred per cent. It was hard to retire from active business in such times, but of those who remained in it, how few there are now

doing true mercantile business. I retired in 1862, and then studied the money market and found *its* hidden springs.

I say it in no spirit of boasting, that when in active business and experienced in all the machinery of banking, though in a comparatively small way, I was caught in the full hurricane that swept down Overend's house ; a run, complete, was made on my house, but it stood without an effort. Of those who now stand, on how many was there a run ; nay, was there one, or is there a bank in London, that could stand a clean run ?

I look for better times when men shall be able to earn a livelihood without the crushing competition which prevails in these times, to say nothing of the strain upon the mind. A backward movement has been made by the banks as regards their system of allowing interest to the public, which is a practical acknowledgment that banks had overstepped their functions, and in so doing had injured themselves. More must be done yet before they are in a position safely to stand against a severe strain."

CHAPTER II.

THE EFFECT OF MODERN INFLUENCES UPON THE CONDUCT OF INTERNATIONAL TRADE IN THE GREAT STAPLES.

The changes which occur in the course of international trade are, for the most part, regulated by certain primary influences. As these shift, increase or diminish in force, or cease to exercise a material influence, the course of trade changes its channels. A stream of new trade may be said to seek the great centres of demand as a river finds the sea. Obstructions in its course are avoided by the instinct of the traders as gravitation guides the water. Tributary streams are gathered in the onward course, enlarging the channel according to requirements, and in some cases doing away with circuitous routes, when the force becomes sufficient to overcome obstructions, which compelled a smaller volume originally to make a detour. The more modern influences which for years past have been in some respects strengthening, and in others undermining, London as the chief trade centre of our time are:—The development of steam communication, the extension of the telegraph system, the opening of the Suez

Canal, the changes in the sources of supply, the greater purchasing power of Continental and other foreign centres of population, the wider distribution of capital and erection of machinery with the spread of civilisation, and the better understanding of economic questions generally.

The Suez Canal has worked, perhaps, as complete a change in trade routes as ever occurred in the history of commerce. That shorter cut to India and the East has been already of inestimable benefit to Great Britain, but it remains to be seen to what extent it will undermine England as a central depôt for the produce of the East. It is evident that the Mediterranean countries will take what Eastern produce they want direct, now that this route has superseded that round the Cape, and in consequence a vast deal will, in the new circumstances, never come near London at all. While England keeps command of the seas, and English capital is so largely engaged in the trade, and while also English capitalists keep the upper hand in the Eastern markets, the flow of produce will, for the most part, continue to this country. But we have to remember that other nations will, as circumstances favour them, accumulate greater wealth than they now possess, and that they will then still more largely arrest such produce as they require immediately on its issue from the European side of the canal. In this movement may exist already the

germs of a change of centre which will ultimately supersede London.

Our object in these pages being to strive after what is, comparatively speaking, new, rather than what is true and not new, we shall avoid, as much as possible, looking back, except when it becomes necessary to do so, in order to show a connection between past and present, or to draw comparisons.

In order to show the effect of modern influences upon the trade of our time our best plan, we conceive, will be to examine the practice among existing traders as it has been evolutionised by the external pressure of changing circumstances in more recent times. We have therefore made inquiries to this end in the cotton market, the corn market, the wool market and the colonial produce markets, as being four of the largest departments of trade which would be likely to feel as deeply as any other the effects of the latest modern influences. We will take cotton first.

Cotton.

The fluctuations in the prices of cotton, during recent years, have been less important than in former years. This is owing partly, no doubt, to the more regular supply of cotton, but chiefly to the altered style of doing business on speculation.

Formerly speculative transactions were all of the

"bull" style (to borrow Stock Exchange slang), that is to say, the only kind of business done was purchasing for a rise. Moreover, nearly the whole of the speculative business was done in *cotton on the spot,* purchases "to arrive" being the exception.

During the American war the "arrival" business greatly increased, but the "spot" still held the chief position.

The high prices and wide fluctuations of the war period suggested "bear" sales. The notion was introduced from New York by a well-known Manchester house, and was first applied to Egyptian cotton (we believe in 1864). Other houses followed in the East India trade. The new style, however, took ground very slowly, and was pretty roundly denounced by the leading firms as "gambling" of the worst kind. Moreover, the transactions gave rise to very ugly disputes and many cancelments, greatly to the injury of innocent parties. By degrees, however, the system gained ground, and rules were framed for the protection of all parties concerned, and within the past three or four years the system of "bulling" and "bearing" has taken firm root in the market. The result is that speculation in *spot* cotton has been greatly reduced, as is shown in the accompanying table, which gives the total sales on the spot and the quantity returned as on speculation, in each year from 1860 onwards.

	Total sales.	Reported on speculation.		Fluctuations in price of middling uplands.		
		Total.	Per cent.	Highest.	Lowest.	Difference.
1860	3,662,000	555,000	15·15	$6\frac{7}{8}$	$5\frac{3}{8}$	$1\frac{1}{2}$
1861	4,050,000	1,331,000	32·86	$11\frac{5}{8}$	$6\frac{3}{8}$	$5\frac{1}{4}$
1862	2,756,000	1,272,000	46·15	$28\frac{1}{2}$	12	$16\frac{1}{2}$
1863	2,618,000	840,000	32·08	$29\frac{1}{4}$	$20\frac{1}{4}$	9
1864	2,782,000	720,000	25·88	31	$21\frac{3}{4}$	$9\frac{1}{4}$
1865	3,693,000	1,057,000	28·62	$24\frac{1}{2}$	13	$11\frac{1}{2}$
1866	3,716,000	454,000	12·21 (panic)	21	$11\frac{3}{4}$	$9\frac{1}{4}$
1867	3,474,000	481,000	13·84	15	$7\frac{1}{8}$	$7\frac{7}{8}$
1868	4,226,000	805,000	19·04	$12\frac{7}{8}$	$7\frac{1}{8}$	$5\frac{3}{4}$
1869	3,750,000	654,000	17·44	$13\frac{3}{4}$	$11\frac{1}{2}$	$2\frac{1}{4}$
1870	3,523,000	341,000	9·67 (war)	$11\frac{1}{2}$	$7\frac{1}{2}$	4
1871	4,583,000	770,000	16·80	$9\frac{15}{16}$	$7\frac{1}{8}$	$2\frac{13}{16}$
1872	4,430,000	700,000	15·80	$11\frac{1}{2}$	$9\frac{1}{2}$	2
1873	3,821,000	312,000	8·16	$8\frac{1}{8}$	$10\frac{3}{8}$	$2\frac{1}{4}$
1874	3,977,000	341,000	8·57	$8\frac{5}{8}$	$7\frac{5}{16}$	$1\frac{5}{16}$
1875	3,849,000	340,000	8·83	8	$6\frac{3}{4}$	$1\frac{1}{4}$
1876	3,781,000	399,000	10·55	$6\frac{15}{16}$	$5\frac{3}{4}$	$1\frac{3}{16}$
1877	3,414,000	287,000	8·40	$7\frac{3}{16}$	$5\frac{3}{4}$	$1\frac{7}{16}$

The withdrawal of speculators from the spot market has left that market more under the control of importers and consumers. There have been as many sellers as before, but fewer buyers. When the *spot* market lost the bulk of the speculative business, it lost those entirely interested in a *rise* in prices—those who bought cotton and held it for a rise, those, in point of fact, who not only increased the demand but also diminished the supply—for the time being. The market, therefore, lost an important element of strength—that is, from the importers' or sellers' point of view. On the other hand, the spinner lost a competitor, who very

frequently started an upward movement which the spinner felt himself obliged to follow.

Now, however, the speculative business is done almost entirely in "futures," the little done on the spot being quite unimportant in its influence on prices. But not only is the speculative business almost confined to transactions in "futures," but the business is deprived of its former character as a support to sellers of *boná fide* cotton by the introduction of sellers who will "bear" the market by selling almost any quantity of cotton for delivery at any time. In this way the supply of cotton is indefinitely increased, and buyers are "filled up," as the phrase is, as fast as they come out.

It necessarily follows from this that supply and demand are more equalised than formerly, and consequently that the fluctuations in prices are reduced to a narrower range. This is clearly shown in the table of sales and prices, even allowing for the extra excitement incidental to the *war* period. Had the present system of business in "futures" been in operation during the American war we should not have witnessed the wide fluctuations then seen. Had we also been under the old régime last year we should have seen at least 8d. instead of $7\frac{3}{16}$d. as the top price of the year. If the present system had been in working order in 1868 we should not have seen a rise from $7\frac{1}{8}$d. in January, to $12\frac{7}{8}$d. in April, and then a fall to $9\frac{1}{2}$d. in July.

The more general introduction of steam has brought the American crop several weeks nearer to Europe than formerly. Consumers, therefore, do not get alarmed if the stock in Liverpool runs down to a small figure ; they know that, in a fortnight or three weeks, supplies will be at hand. The "bears" know this, too, and they neutralise the influence of the "bulls" by offering to supply the spinner at prices which anticipate the rates likely to rule on increased imports. Moreover, the spinner, finding that he can cover his contracts for yarn by purchases of cotton for forward delivery, say 50 or 100 or 1000 bales per month, as the case may be, does not, as formerly, buy on the spot.

The market is less influenced than formerly by speculation as then understood, but the reduced influence is owing to the introduction of a rival kind of speculation. Instead of all "bulls" we have now "bulls" and "bears." The fluctuations are, perhaps, more *numerous* than before, but they are not so wide.

The more general introduction of the telegraph has made a great change in the "Manchester" trade. Formerly orders came by mail and were executed at once, but now orders are sent, subject to modification, by wire. The result is that our foreign trade has become like an extended home trade, and now merchants in India or China, on the Continent, or in America, can reduce their

operations to the merest retail dimensions, and in this way keep their stocks much smaller than formerly. The system of selling to arrive is also more general in transactions in piece goods than formerly.

Formerly a dealer in the interior of India purchased from stores imported by merchants in Calcutta, Bombay, &c., and purchased and shipped by the merchants' agents in Manchester six months before. Now a dealer up country can buy cloth for delivery at a certain date from a merchant at Calcutta, who can buy by telegraph in Manchester from a manufacturer, who can contract for his yarn from a spinner, who can purchase his cotton to arrive. Or to put it a little clearer—

A in New York sells cotton to

B in Liverpool, who sells it to

C in Blackburn, who sells it in the form of cloth to

D in Manchester, on account of

E in Calcutta, who sells it to

F, the "up country" dealer,

and the whole transaction can be completed by wire in forty-eight hours. Large stocks are not necessary, therefore, nor are they anything like so large as they were formerly.

The *Cable* has also greatly altered the method of conducting the trade in raw cotton. The old-fashioned method of buying cotton and not offering it for sale until it is imported has almost died out,

except for very special sorts which cannot be sold to arrive; and even in such exceptional cases merchants frequently secure a profit by selling American for future delivery, as a cover. For instance, a merchant has 100 Egyptians bought at Alexandria; they show a profit which may disappear before they arrive at Liverpool. He cannot sell them to arrive because there are no buyers, so he sells 100 American for forward delivery, the market goes down ½d. per lb.; but having sold the American in anticipation he loses nothing, while he secures the price of his Egyptians.

But the telegraph enables a merchant to sell American or East Indian cotton (for which there are always buyers) to arrive the moment he has advice of a purchase in America or India. This sort of business cuts down profits to a minimum; but though it multiplies transactions it reduces risks and prevents wide fluctuations.

The nature of the intricate transactions made by bankers and Exchange brokers in connection with the various monetary centres of the world, and how by various cross transactions a profit is made, is well known. Similar combinations are carried out in cotton in connection with sales on the spot and for forward delivery, in a way that quite puzzles many people in the cotton trade itself.

Corn.

The general extension of the interchange of commodities between countries would seem to support the belief in a greater equality being in process of establishment under modern influences, both as regards the steadiness of prices over a period of years and also as respects the fluctuations during shorter periods. The result of our inquiries, however, among the most credited authorities goes to show that the effect ef modern influences upon the cotton trade is different in some respects from that exercised upon the corn trade, which the following remarks will help to throw some light upon. That prices in the corn trade have not been steadier over a longer period under modern influences, whether owing to exceptional circumstances or not, is proved by the following figures. The difference between the highest and lowest prices of wheat during the 20 years 1857—1877 is subjoined. In 1857 it was 14*s.* 9*d.*, 1858 7*s.* 5*d.*, 1859 11*s.* 1*d.*, 1860 16*s.* 6*d.*, 1861 10*s.* 4*d.*, 1862 15*s.*, 1863 7*s.* 4*d.*, 1864 5*s.*, 1865 8*s.* 4*d.*, 1866 15*s.* 9*d.*, 1867 9*s.* 8*d.*, 1868 23*s.* 10*d.* (the highest in this year being 73*s.* 9*d.*, and the lowest 49*s.* 11*d.*), 1869 8*s.* 11*d.*, 1870 12*s.* 7*d.*, 1871 7*s.* 1*d.*, 1872 5*s.* 5*d.*, 1873 9*s.* 4*d.*, 1874 19*s.* 2*d.*, 1875 11*s.* 7*d.*, 1876 6*s.* 9*d.*, 1877 14*s.* 11*d.* The character of *bona fide* business in

the corn trade has greatly changed through the introduction of "time bargains" in Berlin, Paris, &c., and "selling forward" in England has greatly widened the latitude in dealing generally. During the last ten years or so the sales for forward delivery, *i. e.* for shipment in a few months, from such countries as the south of Russia and the United States, have been more numerous than in the times when the imports were mainly from the Baltic and on a smaller scale. The system which obtains on the continent, chiefly at the centres above mentioned, of selling wheat and flour for monthly deliveries to the extent of about six months forward, has more largely developed than in this country, and hence the greater range ot speculation in this article on the continent than here. In fact, speculation is considered by some authorities to have, comparatively speaking, disappeared, owing to the telegram system as applied to shipments and harvest reports, &c., and which places the whole world on the same footing as regards the present and prospective position. The difference in this respect has been marked since 1868. Speculation is still practised in those cases where the interval is several months between shipment and arrival. The extension of the telegraph system has tended to equalise value all over consuming countries, and there is no doubt that but for this invention the fluctuations would have been very much wider, owing to the immense increase of

the trade. It has likewise developed "ports of call," where cargoes await orders to go where they are wanted. So far as there has been any change in the nature of the fluctuations over shorter periods, they may be said in this market to be smaller but more frequent, which is not incompatible with prices being on the whole steadier, comparatively speaking.

As regards the international corn trade a very material change has been wrought through the agency of the telegraph in developing "ports of call." England being the largest holder and buyer of grain for herself, gets orders for other countries from her ports of call. Instead of the cargoes as they arrive being stored in granaries and exported as required, they are simply diverted from the ports of call. The actual export from this country has thus sunk to an insignificant quantity as compared with the consumption. Most countries produce enough for their own consumption. It is therefore only England, Belgium, Holland, Switzerland, and sometimes France, which are interested in the surplus supplies. One of the effects of the largely increased international trade in grain has been greatly to enlarge the area of production, which leads to the opinion being entertained by the best authorities that the next occasion of a large general yield will see the price of wheat lower than it has ever been before. This is a comforting assurance

for those pessimists who always predict after every commercial crisis that we have now reached the millenium of national decay, and that the wisest course to pursue is to help in chasing back the receding tide of reaction, sell what they own when there are no buyers, and take the decision to retire into private life when it is too late, and when the withdrawal of their support and experience gives a tenfold impetus to a movement which begets disaster, just in proportion to the extent to which the foolish give way to their folly.

A review of the stocks of wheat held during the last forty years shows them to be much the same in proportion to the requirements. London, when the United Kingdom's imports were under three millions, had as much in proportion as now when thirteen millions are required.

The sources of supply have been revolutionised. The exports of Australia, and more recently of India, are changing all the old standards. The Atlantic ports of America, those of India, California, Australia and Chili, now send more grain than was formerly received from the Baltic, Black Sea and Azov, the chief sources of supply. The increase in the Indian exports of grain has been 600 per cent. during the last seven years.

The following replies to questions which we have put to experienced persons engaged in the colonial

produce markets show the changes which have been wrought in the international mode of dealing in these articles under more modern influences.

Colonial Produce.

The opening of the Suez Canal, and the facilities given to direct communication between Calcutta and London by way of telegraphic despatches, caused a complete revolution in the manner of conducting business in Mincing Lane; the necessity of keeping large stocks in the hands of merchants and dealers is now rendered useless and unprofitable, and has drawn the producer and the consumer into closer contact. The fluctuations in prices are less frequent, and are almost entirely due to early information obtained from the producing districts. Political affairs and extraneous objects have now greater bearing on the various markets than the question of supply and demand in their ordinary sense.

In many articles sold in the colonial produce markets the "middleman" or importing merchant is not required; *e. g.* large quantities of jute are now shipped direct from Calcutta to the consumer at Dundee; saltpetre also is sent in the same way to the gunpowder manufacturer. The consumer in this instance has only to telegraph his requirements to

Calcutta, and he gets his produce in a few weeks through the Canal without any reference to the London markets. Drugs and dyes are also sold in a similar manner, though in small quantities. The benefit obtained by the consumer in every instance is the saving of the merchant's commission in London. Indigo is a remarkable commodity as showing how much the London merchant has suffered by the opening of the Suez Canal, and the facilities of telegraphic despatch. Formerly the whole crop of Bengal was sold in Mincing Lane ; now about a third only comes to this market. The dealers and dyers on the continent and in America give their orders direct, instead of coming here to buy, and the same observations apply as forcibly to *silk*. The Lyons merchant gets all his silk direct *viâ* Marseilles without coming to London at all. A consumer in either article can give an order on the 1st January, by wire, to Calcutta, and have the goods in his warehouse by the 1st February. Tea and sugar are the chief exceptions to the foregoing. The merchant in China, India, or the West Indies, has not yet entered into commercial relations direct with the grocer in Whitechapel ; the reasons are sufficiently obvious, the enormous quantities and different qualities of both articles would not make such a business profitable, nor would the small orders likely to be obtained from the general dealer pay the grower.

Speculation, in the usual acceptance of the term, has wonderfully diminished; and is only rife in extraordinary times such as, for instance, in February, 1878, when the market for saltpetre was influenced by the rumours of war. All *spot* speculation is, as a rule, exceedingly narrowed in its limits, but the speculation known as "buying forward" is the greatest blot on our commercial dealings; it can only be likened to "bear" sales, "time-bargains," and similar transactions on the Stock Exchange. As an example, cotton is offered *May* (*June* shipment). Saltpetre can be bought, say, in *March* (*April* sailing). What does this mean in plain English? That a man sells what he has not got, in the hope that before he is obliged to ship, the market in Calcutta may fall below the price at which he has sold. It offers also a great bait for needy men to buy these commonly denominated "long-shots," because, as in the case of cotton before alluded to, the buyer would not be obliged to complete the transaction before Christmas, and has the run of the market till then to get quit of his bargain. This system of speculation cannot add to commercial morality, has ruined hundreds, and can only be stopped by Act of Parliament rendering all sales for arrival illegal, wherein the seller does not disclose full particulars of what he sells, such as marks, numbers, &c., with the proviso that he has bought the goods he sells, or they are otherwise in his possession. As speculation on the spot

has decreased, so are prices less affected now than they were in days gone by. Then the old-fashioned British merchant had to look months ahead, and calculate supply and demand with a view of sending an order in January to receive the goods in the following autumn. Gluts of any kind of produce were then frequent through augmented stocks, which were sometimes held for years, and which now are indeed of *rare occurrence.*

Wool.

No important change in the system of conducting the wool trade, and in the extent of the present fluctuations of prices as compared with those in former periods, has taken place. From 1857 until the crisis of 1866 there was a fairly steady range of prices for Colonial wool (fine merino), while English wools (strong quality and long wools) followed the remarkable fluctuations of cotton during the American war. From 1866 to 1870 prices were declining and low, owing to the generally unsatisfactory state of business and to the over-production of raw material. The general development of trade in 1871 and 1872 caused an exceedingly sharp rise, but since 1873 prices have nearly continuously been declining. On the whole there is nothing in the

character or duration of the more recent fluctuations to distinguish them from those of former periods.

If by speculation be understood the buying and selling of goods afloat or unshipped, or on delivery of goods not yet in existence at the time of contract, then speculation may be said to be unknown in the wool trade. Wool does not lend itself to such transactions by reason of the impossibility of classing it into standard grades and the difficulty of fixing its value. The legitimate speculation of dealers in buying for the probable requirements of their clients has of late somewhat decreased, as the great, and even the smaller, consumers buy more and more direct in London, select the sorts which they require themselves, or pay a commission to agents who are well acquainted with their wants.

The speculation of importers, on the other hand, the practice of entrusting orders to agents in the Colony or to their own branch establishments, is on the increase, and the greater part of the Cape production, though only a minor proportion of the Australian wools, are now dealt with in this manner, auctions being held at Melbourne, Sydney, and other places But even this kind of speculation has not had any material influence on the wool trade, as the bulk of wools so purchased still comes to London for final disposal. The difference is that instead of being sold for account of the grower they are sold for account of the speculator.

The international wool trade can be said to have changed in respect of the prodigious growth of the Colonial production, which has caused London to become a market of commanding importance. Thirty years ago the Colonies (Australia and Cape) produced about 100,000 bales; now they produce 1,000,000 bales.

According to place of production and destination the wool imported into Europe may be divided into four principal classes, viz.:

	Principal market.
1. Colonial (Australian and Cape) . .	London
2. River Plate . . .	Antwerp and Havre
3. East India	Liverpool
4. Turkey and North African . .	Marseilles

The following figures give the total imports of these four kinds of wool and the proportion of imports into the principal ports in bales:

	Colonial (Australian and Cape),		River Plate,			East India,		Turkey and N. African,	
	Total.	of which into London.	Total.	of which into Antwerp.	Havre.	Total.	of which into Liverpool.	Total.	of which into Marseilles.
1860	265,698	(240,136)	50,802	(14,841	12,200)	62,591	(59,516)	118,000	(90,135)
1866	478,712	(455,812)	195,576	(82,664	41,635)	81,571	(75,939)	178,301	(151,810)
1872	747,513	(661,601)	263,331	(135,756	56,049)	67,020	(60,801)	246,986	(168,289)
1877	1,012,314	(993,757)	291,761	(165,369	70,165)	76,083	(64,467)	146,014	(108,865)

Of the 994,000 bales of Colonial wool imported into London in 1877, 39,000 bales were for Continental account and re-exported direct from ship; 445,000 bales were bought for export in the London

sales ; and 510,000 bales remained for home consumption. So that about one half of the Colonial wool imported into London is re-exported.

The total consumption of raw wool in the United Kingdom is estimated in millions of lbs. as follows :

	Estimated Home Clip.	Imports.	Exports.	Retained for Consumption.
1800	96	9	—	105
1860	140	151	42	249
1877	152	418	197	373

From the foregoing statistics it will be observed that practically the whole of the wool produced in the Colonies comes to London. Efforts have been made to divert a portion into Continental channels, but with little success.

The cause of all Colonial wools coming to London must be primarily sought in the fact that Australia and the Cape are British Colonies which naturally send their produce to the home country. It should, however, be added that this natural course has been aided and maintained by the system of public sales pursued in London from the first beginning of the Colonial wool imports to the present day. The keystone to this system is that, provided there be fair competition, the market, whether high or low, is always met by the owners, and exceptions to this rule—such as withdrawals—though lately rather more frequent, are yet, in proportion to the enormous

quantity sold, not important, reaching at the worst of times barely ten per cent., and being generally below five per cent. of the supplies. Fair and full competition is never wanting in London, where hundreds of buyers congregate from all countries, and this being the case, the vast bulk of the wools is always sold and can always be sold, with the certainty of realising the highest value, of which the condition of the trade at the time, not of a local or of an English, but of the whole European trade, admits.

To this healthy principle the Colonial wool grower owes much of his prosperity, and equally owing to the same principle is it that, notwithstanding half of the Colonial wool is re-exported to the Continent, yet the whole of it, primarily and legitimately, finds its way to London as, beyond question, its most advantageous market.

Should in future the American import duties on raw wool be abolished, the United States may take a larger proportion of the Colonial wool production than at present.

The opening of the Suez Canal is considered by the best authorities not to have had so far the slightest influence on the international wool trade, except that the wools from East India and a very small proportion from Australia come to market a little quicker.

CHAPTER III.

PART I.

TO WHAT EXTENT HAVE NEW ELEMENTS AND KNOWN INFLUENCES, WHICH HAVE LAIN COMPARATIVELY DORMANT, AFFECTED PRICES IN MORE MODERN TIMES.

To what extent new elements are working their way in among those which have been recognised, examined, and have found a place in treatises on political economy, is a subject which will be always of deep interest to the student who is searching after new truths. Some persons will, perhaps, remark, on reading that sentence, that there are no new elements to work their way in, and that there is nothing new under the sun. There may be some truth in this, and yet it cannot be altogether true. In the science of electricity fresh discoveries are from time to time being made, such as the telephone, which very possibly is one step on the road to orchestral performances being laid-on to private dwellings, like gas or water. As social, political, and economical reforms are developed, known but dormant influences, as well as new influences, will come into play. There are

certain known laws which govern prices, which are the chief causes of a rise and a fall. Outside these there are other influences which depend, for their power of producing an aiding or a counteracting collateral effect, upon the removal of obstructions or the introduction of co-operating facilities. Take, for example, the effect upon the trade of the world of the growth of competition, which has made such enormous strides of late years. Here we have not a new element, but the spread and growth of an old one, which, except in certain districts of the earth, has lain dormant, and could not produce an aiding or counteracting collateral effect because it lacked the flues and the draught which railways and telegraphs pierced the land with, thereby increasing infinitely the number of operations and diminishing the profit upon them. The effect of these co-operating facilities has been to give an immense stimulus to what political economy text-books call the "tendency of profits to a minimum." The tendency of profits to a minimum means, in one sense, a diminished cost to the consumer, competition in trade being the process of sellers underbidding each other in order to attract buyers. The closer all markets can be brought to each other, and the freer the trade between them, the smaller will the price be relatively which the consumer will have to pay, until the full capacity of supplying a growing demand has been reached. The gradual

disappearance of caravan transit may be said to have given wings to such commodities as were formerly only accessible to consumers by means of that slow and laborious process of reaching the markets for which they were intended. As railway and steamship communication is extended to all the remote producing districts of the earth, a process of development is going on in favour of the consumer, the eventual benefits of which are immeasurable. This is seen in several ways. A better supply of everything enables the populations of the earth to fall back upon other descriptions of food when one fails partially in one country, or to purchase what they have not been able to grow. The larger number of markets accessible to perishable commodities enables producers as a body to avoid ruinous loss when the general yield of one description is large, while a better average supply is ensured. In other words, failure in one country is balanced by the surplus in another, a remarkable case in point being the year 1877, when England's harvest was comparatively speaking a failure, while that of the United States was unprecedentedly superabundant. The importance of these circumstances to a country like ours, which has such an enormous command of capital, is inestimable. All our fixed and floating capital is of little avail, and the former soon goes to rack and ruin, if we cannot feed the labouring population. So long, however, as we can prevent the

dislocation which overtakes organized labour in consequence of a material scarcity of necessary food, the failure of one harvest, or even of two, comes to be to the nation, as a whole, only a loss of material wealth such as an individual merchant sustains when he makes less profit in a year upon one branch of his business. As against 45s. a quarter two years ago, wheat was, in 1877, 62s. With the larger area of wheat cultivated in the world, what does this mean for a country like England now, as compared with the time when we were compelled to depend much more upon the produce of our own soil? In these times it does not mean starvation to a great number of the poorest and the feeblest; it does not mean disease and death to thousands who would have been spared these miseries if the blessings of Providence had, as regards the staff of life to the full extent hoped for, been showered upon the people of these islands; we cannot say, even, that it means privation in the severe sense of the term. It is very doubtful if, in a few years' time, any trace will be found of the aggregate loss which Great Britain sustained in 1877 by the partial failure of her harvest. What is ten, or even twenty, millions to a nation whose income is estimated by some authorities at twelve hundred millions of pounds sterling? One per cent. on that total is just twelve millions. It means the payment, by everybody who has a thousand a year, of ten pounds, or one per cent. of

his income, and others in proportion. Divided, however, over the whole community it, of course, comes to less, because we must take into account the material consideration that a saving, energetic nation will be sure to exert a large amount of extra energy with a view to mitigate the effects of a deficient harvest. Fewer luxuries will be consumed, and more work will be got out of the lower orders of society, who are very apt to get demoralized in exceptionally prosperous times, and do really less than when they are earning less wages.

As regards the effect of the spread of competition, therefore, in depressing prices, we think there is no doubt that the same facilities which have brought about keener competition have ensured better average supplies of commodities, and that consequently there is now less liability to extreme fluctuation in prices than there was when it was impossible to forward perishable articles from a centre where there was abundance to one where there was a scarcity.

PART II.

GAIN AS REGARDS PRICE TO THE CONSUMER BY THE DESTRUCTION OF THAT CLASS OF MIDDLEMEN WHOSE AGENCY IS BECOMING UNNECESSARY BY THE EXTENSION OF THE TELEGRAPH AND OTHER MODERN FACILITIES.

Before referring to what we believe to be the benefits which the consumer is deriving, and will more abundantly derive, from the gradual removal of the class of merchant which comes more particularly under the head of commission merchant, we propose to enquire a little into the causes of the decline of this description of middleman.

In 1874, 1875, and 1876, the speculative trade of the world was depressed to a degree perhaps beyond precedent. The depression did not show itself in such sudden eruptions as on former occasions, but it was deep and wide spread, moving like a plague, devastating one commercial country after another, and more or less affecting all. The depression of the great commercial countries of the world means more or less of stagnation for all nations, for commerce has its roots extending everywhere, and the smaller nations sympathise with the larger. In the early part of the century each nation may be said to have been to some extent paled in. The conduct of

mercantile operations was attended with less entanglement. New operations were, as now, perpetually being entered into, but there were not so many unsettled transactions run one into the other. The advantage of the system that prevailed forty years ago was that merchants could not get so far out of their depth in business. Before railways were constructed, and business was transacted by electricity, every man was better and sooner able to put his feet on the bottom of the commercial current, which in these times is fathomless, when a commercial cyclone threatened to knock his business about his ears. In our day merchants, excepting the old class who are relegated to a safe but much narrowed area in the back ground, must operate in deep and swollen currents, where the only safety consists in possessing a great floating power in the form of a large available capital. A great transformation has been going on as regards an entire section of the mercantile community. It is one of those movements like the disappearance of the dark races before the irresistible tide of white civilisation. Submarine cables have annihilated written orders, and are driving the class who wrote them to win their bread in another sphere. What is the result of this change? Consumers and producers now shake hands over the heads of the merchant princes, whose *raison d'être* is fast vanishing. The crisis of 1857 gave a tremendous blow to a vast number of these

merchants, especially in the commercial centres of the north of Europe, and while they lay prostrate and their wealth was scattered to the winds, consumers and producers both saw the mutual advantages to be derived from dispensing with the services of an autocracy whose wealth and connections enabled them luxuriously to raise a heavy toll at the frontier which divided the seller from the buyer. The depressing sultriness of the commercial atmosphere which moved slowly over Europe, the United States, Canada, along the River Plate, and, after an interval, during which an unwholesome general stagnation prevailed, showed itself in Asia, betokened the uprooting of a heavy portion of the antiquated machinery by which the commodities of the world had hitherto been interchanged. Both the producer and the consumer have been greatly weighted for many a long year by the exactions of the middlemen, who for untold generations have fattened on the sweat of other men's brows. Science has, however, at length tolled the knell of their departing opportunities, and the entrance of the telegram has been the signal for the exit of the middleman.

The following is a list of the failures of commission merchants in London and the provinces of England in the undermentioned years :

1865 . . .	137
1866 . . .	141

1867	180
1868	278
1869	337
1870	127
1871	112
1872	126
1873	177
1874	138
1875	75
1876	192
1877	227
First half of 1878	113

In 1868 and 1869 there was a general rush of weak houses to take advantage of the bankruptcy law which expired in 1869, which accounts for the rise to 337 in the figures, and the considerable fall in the total for the following two years. There is however, a steady increase in 1876 and 1877, which seems to bear out our argument.

What does this momentous change portend? Does it promise really to benefit in any large degree the actual consumer? Consumers of the raw material obviously will benefit materially and likewise the producers. Between these two classes there will be great benefits derived. While the middleman existed neither producer nor consumer was ever sure that he was rightly informed as to the condition, in the one case, of the demand to meet which he was producing, and in the other, of the

supply in accordance with which he made his preparations to consume. The *suppressio veri* is what would be termed in horticulture a creeper that has grown entirely over the whole system of commerce, until trading without the *suppressio veri* is, as a general rule, trading on a system which will soon bring the trader to ruin. It is obvious that the merchant middleman will seek on all occasions to keep producer and consumer as far as possible from each other. The establishment of relations between them suggests itself to the middleman at once as the beginning of his end.

Of late years there has been a very rapid growth of competition among middlemen of all classes, the new elements that have been successfully introduced to supplant the old by charging less commission having added fuel to a flame which was already fast consuming this once powerful section of the community. As the nations of Europe have increased numerically and accumulated riches, large numbers have gone forth, to the East especially, in search of fortunes which were not to be made at home. The German nation has sent out a great many well-educated hard-working young men with energy and application as their chief capital, and with a thorough business-like way of doing things, the absence of which among a large proportion of the matured young commercial Englishmen of the present gene-

ration is painfully manifest. The Germans, it is true, have not until quite lately tasted of the luxuries which have already so demoralised the descendants of the founders of our Indian Empire and our extensive Colonies in all parts of the world. They are sharpened both in physique and mind by the short commons which necessity imposes, and by their greater simplicity of life have passed through a course of study and preparation which stands the young man commencing his mercantile career, in such good stead; a course of experience, indeed, which serves him only a degree less effectually than if he had had a training in the school of adversity itself.

The change which science has been busily engaged in making in the *modus operandi* of mercantile dealing in Europe, which is destined to get rid almost entirely of middlemen, has been at the same time giving an impetus to the competition among this class which has caused a more rapid disappearance of the older houses. The development of railways has, as we all know, assisted in the spread of wealth, stimulated the cultivation of previously waste tracts of land, and by thus increasing the means of subsistence has increased populations. Hence a supply of eligible individuals, who have been willing to work for half the commissions and less which were formerly paid, have gradually taken the business from the old established houses, and

large masses of wealth have in consequence migrated either into fixed securities or have been transferred into large retail establishments which would in future buy direct from the producer.

What are likely to be the effects upon the course of trade and upon prices which may naturally be expected to result from the removal of a class who, in the past, have gained a vast deal of wealth by the services which they have rendered to the consumer? If we have to employ a person to fetch what we want from a neighbouring shop, we must pay him something for his trouble, which of course adds to the price of the article bought. As we, as a rule, know the cost of the article at the shop, we are sure not to be deceived by that purchase as to the proper price, as thousands have been in years gone by from not knowing what was the condition of the market in which the merchant purchased, for example, tea, silk, or indigo. The addition to the price we have to pay is the small certain commission to the servant who is sent. The object of all merchants is to make as much as they can out of every one with whom they come in contact in business. Instead, therefore, of letting the consumer know that tea, silk, or indigo, was in abundant supply, as much as possible would be sold for forward delivery before any accounts of the new crop could reach the consumer. A small number of people could obviously, in this way, reap almost the whole advantage which the thousands of

consumers would have derived by knowing themselves that the yield had been abundant, and by being able, through modern facilities, to avail themselves of it. Here, then, we may be said to have two great facts in favour of a reduction of the relative cost of the commodities thus influenced to the advantage of the consumer; for it cannot be supposed that in years of scarcity the middleman would in any way contribute to mitigate the suffering which such scarcity would occasion to the consumer. The nearer the consumer is brought to the producer the better chance will he have of obtaining the articles he may require at a price which shall leave a fair profit to the producer. Consequently, not only is the middleman deprived of the temptation to enrich himself at the expense of the consumer, but the cost of maintaining him and his office machinery is got rid of for the benefit of the consumer.

While this considerable obstruction to a general reduction of prices, which were previously enhanced by the additional cost of production, is being gradually swept away by the improved international communication and facilities, the area of cultivated land in new countries is probably increasing in a greater ratio than the population, by reason of the introduction of agricultural machinery.

PART III.

THE COUNTERACTING EFFECT OF MORE CONSUMERS.

The benefits which the consumer derives from the removal of the previous hindrance to a fall in prices, in the shape of the middleman, brings, like all other revolutions, more or less potent counteracting influences into play. The question is—What consideration are these entitled to? As higher prices stimulate to production, so lower prices stimulate to consumption. We may take it for granted, however, that, be the increase in the number of consumers as rapid as it reasonably may, some considerable time must elapse before a sufficiently counteracting effect is produced entirely to neutralise the elimination of so important an artificial support as the general body of middlemen and their capital.

Before new consumers come into being as the direct result of much cheapened food, those from whom the new generation will spring must first derive material benefit from the addition of the new tangible wealth. We take it, then, that, whether it shows actually or not in the recorded history of prices, the elimination of so costly an element as the middleman must in a greater or less degree permanently play into the hands of the consumer. For not only do consumers, who are themselves not middle-

men, derive a benefit by the abolition of those who are, but they gain as much indirectly by the destruction of an artificially created demand for commodities which receive undue support from a class whose assistance in bringing commodities to market is now no longer needed.

It may be said that commission merchants have been useful in stimulating other industries, and have, therefore, by their exertions, fully made up in other ways for the hindrance they have been to the consumer getting what he required at the lowest possible cost. This, we think, is a great mistake. A commission merchant belongs very much to the order of nature's drones, of which the cuckoo is a representative. All kinds of brokers come under the same category. They consume more and produce less than any other section of the working community. What they save counts for very little, because it is no real saving. What they save is simply filched from the hard earnings of others, a portion of which they should have saved themselves.

It is proverbial that money easily gained is rapidly spent. There is no class in the community which really does so little for the benefit of their fellow-creatures in the way of honest hard work as the broker middlemen class, and none which is so pretentiously ostentatious of their means. Consumers of luxuries in an undue proportion, who are not at the same time good workers, are a direct loss

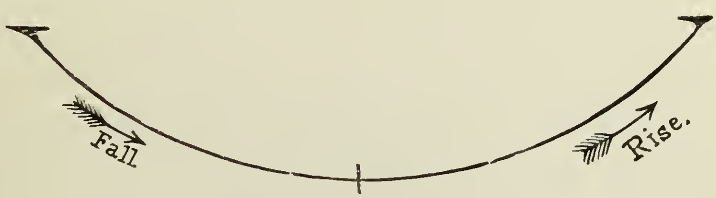
to society. We are of opinion, therefore, that no class can be so well dispensed with, and is being so economically and efficiently replaced, as the body of middlemen, and that their removal to a sphere in which a good day's work will be got out of them is a permanent, direct and indirect, gain to consumers as a body.

CHAPTER IV.

THE FLUCTUATIONS IN PRICES.

PART I.

There is a period in the history of all nations when prices may be said either to be upheld artificially by the co-operation of persons who are interested in preserving them at a certain level, or have been let down to their minimum through the decline of the purchasing power of the consumer to the lowest point. The process of a general fall and rise of prices, irrespective of the influence which may be exercised over them by the changing relative value of the circulating medium, may be described as follows:



We will suppose ourselves at the lowest point, and in a primitive condition of existence. We will suppose nobody has anything more belonging to

him than was possessed, for example, by the Maoris of New Zealand of the poorest type when they arrived, according to tradition, in their canoes from the island of Hawaiki 500 years ago. The arrangement of a co-operative existence between them would mean in its first conception that each should pay to the other a certain price for the benefits derived by each from the other's labour. One would build a hut; another would fetch water; a third would catch fish; a fourth fowl; and so on. All, we will suppose, would share in the benefits derived from following each of these avocations. What one did for the other would be the price paid by the other for what he could not do so well for himself. If one of them by exerting greater physical power were able to get in advance of the others in providing what fell to his lot to procure, he would, *pro tanto*, have provided himself with capital to supply his other wants in advance of his fellow-workers. He would not have got ahead of his friends at any less cost, however. He had paid the same price for what he had contributed to the general store by an extra tax on his physical powers. These people, in the ordinary course of things, multiply and make other huts and divide off by degrees into separate small communities at a distance from each other. The different districts occupied by these separate communities produce different necessaries of life which are interchanged.

If the produce of each separate community was just sufficient for its consumption and to leave a surplus for the necessities of the others, such surplus would no doubt be held at the disposal of the others in exchange for their surplus. Here we should have had an expansion as regards the number of human beings and of the area occupied by them, but in the case we suppose there would have been no change in the working of the interchange of commodities. The question of more of one thing being demanded for less of another, as we understand it, would not have arisen. Such a happy condition of affairs in many respects could not, in the very nature of things continue, but for a very brief period of time. It is evident that while the things produced by one section of this total community would in one season diminish in quantity, and perhaps also in quality, the things produced by another would have augmented and, may be, have also improved in quality. Here we arrive at the point at which the supposed equilibrium would be upset. In the first case, as in the second, two new factors would have entered to affect the terms of exchange, or, in other words, negotiation as to price would commence. Assuming that the demand would continue as the articles referred to are the mere necessaries of life, that article which had diminished in quantity would buy less than was required of the others, unless the

improved quality compensated for there being less of it. That article which had augmented would, on the other hand, be more freely offered through the desire to market a perishable article and also from the anxiety to obtain part of that which had diminished. In the one case there would be what we call a rise in price and in the other a fall, while in both there would be a liability to have the change in price neutralised by the concomitant conditions referred to.

From this point, as experience teaches us, there may be an endless ramification of influences calculated to affect the exchangeable value of articles, and an endless chain of influences springing up from the opposite side to neutralise a tendency either to rise or fall. We are here considering stagnation of prices, that is, the dead level of price at which the value of things generally remains during a period when but the minimum purchasing power of the consumer is exercising its effect upon the market. The brief illustrations we have made use of put the question of price, as it were, on the ground; no fall and no rise needs to be discussed while there has been no change of conditions between the interchangers of commodities, or barterers, giving rise to the question of rise or fall. We therefore start from a basis which seems to admit of no misconception as to the nature and working of the prime cause which affects price. Whatever may be the subse-

quent influences of one commodity upon another, or of one set of commodities upon another set, in altering their interchangeable value, the first of all must be that which comes direct from the soil of the earth, aided in its yield by varying moisture, heat, and the application of modern scientific methods of cultivation.

Taking the nations of the earth as they are in numbers, as regards population, and condition at the present day, and assuming that prices generally have, by reason of deficient harvests and deficient yield of the great staples of industry, fallen to the minimum by a gradual process of decline, there seems to be no difficulty in reasoning out the process by which the recovery to the maximum is brought about. We cannot see the intricacy of the interwoven influences which, on the one hand, support each other, and, on the other, counteract each other as each comes into play and extends or dies out; but where we know that from one time to another a rise takes place, is checked, goes on again, and then remains stationary in one article, and at the same or at another time a fall occurs, is arrested, gets fresh impetus, and then is uninfluenced for some time, it is obvious that time and trouble are all that is required to analyse each individual case, and determine to a certainty to what the movement of price each way was due.

For the information of those who may care to

follow the exact course of the cotton market, for instance, during fifty-two weeks from May 10th, 1877, to May 2nd, 1878, we reproduce Messrs. Ellison and Co.'s Liverpool Monthly Cotton Report for May 9th, 1878, which shows the exact course of the market.

1877.

May 10.—Slow but not depressed. American and Brazil partially $\frac{1}{16}$d. lower. Futures $\frac{1}{32}$d. easier.

17.—Opened flat, and lost $\frac{1}{8}$d., but regained $\frac{1}{16}$d., and closed more cheerful. Net fall in futures $\frac{1}{32}$d. to $\frac{1}{16}$d.

24.—Whitsuntide holidays, Saturday to Tuesday, re-opened with good demand. Surats $\frac{1}{10}$ higher, others unchanged. Futures $\frac{1}{32}$d. lower.

31.—Steady, with hardening tendency. American $\frac{1}{16}$d., Surats $\frac{1}{8}$d., futures $\frac{1}{16}$d. higher. Falling off in Bombay receipts.

June 7.—Opened quieter, became stronger, closed firm, at advance of $\frac{1}{8}$d. to $\frac{3}{16}$d. in American and $\frac{3}{16}$d. to $\frac{1}{4}$d. Surats. Futures $\frac{3}{16}$d. higher.

14.—Opened steady, became strong, then paused, closed firm at advance $\frac{3}{16}$d. to $\frac{5}{16}$d. for American and $\frac{1}{8}$d. for others. Futures $\frac{3}{16}$d. higher.

21.—Opened steady, but gradually toned down, closed dull with small demand at decline $\frac{1}{16}$d. on spot, and $\frac{3}{32}$d. to $\frac{1}{8}$d. for futures.

28.—Opened flat with small demand, and lost $\frac{1}{16}$d., but recovered on improved demand, closed steady at advance of $\frac{1}{8}$d. for spot and futures.

July 5.—Opened firm, but became quiet, and gave way $\frac{1}{16}$d. for spots and $\frac{3}{32}$d. for futures. Manchester flat—"short time."

12.—Opened tamely, but subsequently hardened, and closed steady at advance of $\frac{1}{16}$d. on spot and $\frac{1}{16}$d. to $\frac{3}{32}$d. for futures.

19.—Firm, with hardening tendency, all week; closed at $\frac{1}{16}$d. advance on spot, and partially $\frac{1}{32}$d. to $\frac{1}{16}$d. for futures.

July 26.—Opened steadily, but rapidly became flat, and closed weak at a decline of $\frac{1}{16}$d. on spot and $\frac{3}{32}$d. to $\frac{1}{8}$d. for futures. Man. depressed.

Aug. 2.—Increased dulness; very small demand; desire to sell; prices $\frac{1}{8}$d. to $\frac{3}{16}$d. lower for spots and futures. "Short time" extending.

9.—Dull and idle all week; closed at decline of $\frac{1}{8}$d. to $\frac{3}{16}$d. on spot, and $\frac{1}{8}$d. for futures.

16—Opened steadier, advanced $\frac{1}{16}$d., became quieter, and closed dull at the advance.

23.—Dull all week; decline of $\frac{1}{8}$d. to $\frac{1}{4}$d. in American, partially $\frac{1}{16}$d. in Surats, and $\frac{1}{8}$d. to $\frac{5}{32}$d. in futures.

30.—Opened better; more inquiry; closed quiet at advance of $\frac{1}{16}$d.; Egyptians depressed, and partially $\frac{1}{4}$d. lower.

Sept. 6.—Opened quiet, and gave way $\frac{1}{16}$d., but closed steadier; futures slightly easier.

13.—Opened firm, and improved as week advanced, closing at improvement of $\frac{1}{8}$d. to $\frac{1}{4}$d. in spot, and $\frac{1}{8}$d. in futures.

20.—Strong all week; small American receipts; declining visible supply; large trade demand. Prices $\frac{3}{16}$d. to $\frac{1}{4}$d. higher, spot and futures.

27.—Opened quiet, then improved, but subsequently relapsed. Closed quiet at net advance of $\frac{1}{16}$d. to $\frac{1}{8}$d. in spot; no change for futures.

Oct. 4.—Opened active, owing to stock taking showing a reduction of 35,000; after sundry fluctuations closed $\frac{1}{16}$d. higher spot.

11.—First half strong and $\frac{1}{4}$d. to $\frac{5}{16}$d. higher; second half weak; net result $\frac{3}{16}$d. higher spot; no change futures.

18.—Quiet all week; indifferent buyers; eager sellers; closed rather steadier $\frac{1}{16}$d. to $\frac{1}{8}$d. lower on spot. Futures unchanged.

25.—Quiet; fair demand; freely supplied; closed firm. Prices $\frac{1}{16}$d. to $\frac{1}{8}$d. higher on spot, and $\frac{1}{16}$d. dearer for futures.

Nov. 1—Reduced demand. New Uplands $\frac{1}{8}$d. lower; Orleans unchanged; long staples easier; futures $\frac{1}{8}$d. lower.

8.—Opened tamely. Uplands touched $6\frac{3}{16}$ to $6\frac{1}{4}$; improved second half of week; closed steady at net decline of $\frac{1}{16}$ spot. Futures $\frac{1}{16}$ adv.

Nov. 15.—Steady first half, quiet remainder. Net advance $\frac{1}{16}$ on spot; decline $\frac{1}{32}$ for futures.

22.—Opened quiet, but subsequently improved, and closed firm at advance of $\frac{1}{16}$d. to $\frac{1}{8}$d. on spot, and $\frac{1}{8}$d. in futures.

29.—Quiet all week, without quotable change in prices, except partial advance of $\frac{1}{8}$d. in Brazils, and $\frac{1}{16}$d. in Surats.

Dec. 6.—Opened steady; second half firm; large business; advance $\frac{1}{16}$d spot and futures.

13.—Opened firmly, and gained $\frac{1}{16}$d. on spot, and $\frac{1}{32}$d. to $\frac{1}{16}$d. for futures, but became quieter, and closed $\frac{1}{32}$d. to $\frac{1}{16}$d. lower for futures.

20.—Opened quietly, and went flat; lost $\frac{1}{8}$d. to $\frac{3}{16}$d. on spot, and $\frac{3}{16}$d. for futures. Increased American receipts. Unfavourable politics.

27.—A broken week, owing to holidays, and indisposition to do business, owing to uncertain politics. Prices lower, $\frac{1}{16}$d. spot, $\frac{1}{32}$d. futures.

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Jan. 3.—Another holiday week. Opened steady, and became firm and rather dearer. Futures about $\frac{1}{8}$d. higher.

10.—Opened quiet, went dull, closed firmer on report of armistice. Prices, after declining $\frac{1}{16}$d., recovered. Futures $\frac{1}{32}$d. higher.

17.—Dull all week. Uncertain politics. Low American $\frac{1}{16}$d. to $\frac{1}{8}$d. lower.

24.—Opened dull. Lost $\frac{1}{16}$d.; went worse, and lost $\frac{1}{16}$d. more. Critical politics. Large receipts. Futures $\frac{1}{8}$d. lower.

31.—Opened unsettled. Reported despatch of fleet to Dardanelles. Became steadier. Net decline $\frac{1}{16}$d. spot and futures.

Feb. 7.—Steadier on more pacific reports. Excited on reported occupation of Constantinople by Russians. Closed better, $\frac{1}{16}$d. higher.

14.—Quiet; waiting; unsettled politics; threatened war; small sales. Spot prices $\frac{1}{16}$d. to $\frac{1}{8}$d., and futures $\frac{1}{8}$d. lower.

21.—Opened dull; went better on more pacific news. Closed steady. Net advance $\frac{1}{16}$d. spot and futures.

28.—Opened steady, but went flat. Increased gravity of politics. Spots $\frac{1}{16}$d. to $\frac{1}{8}$d., and futures $\frac{5}{32}$d. lower.

Mar. 7.—Opened flat on war rumours; improved on Peace Treaty; re-acted on large American receipts; closed firm at $\frac{1}{16}$d. to $\frac{1}{8}$d. advance.

Mar. 14.—Dull all week. Man. flat. Large American receipts. Unsettled politics. Spot $\frac{1}{16}$d., futures $\frac{3}{32}$d. to $\frac{1}{8}$d. lower; Egyptian $\frac{1}{8}$d. higher.

21.—Unrelieved dulness; gradual decline; spot prices reduced $\frac{1}{16}$d. to $\frac{1}{8}$d.; futures $\frac{1}{16}$d. easier.

28.—Continued inactivity; further decline $\frac{1}{16}$d. on spot, and $\frac{1}{16}$d. to $\frac{3}{32}$d. for futures.

April 4.—Opened flat. Resig. Lord Derby. Slight recovery checked by Lord Salisbury's despatch; closed steady. Net decline $\frac{1}{16}$d. spot, $\frac{1}{8}$d. futures.

11.—Friday to Tuesday firm, and $\frac{1}{8}$d. higher; became quieter; part of advance lost; net rise in futures $\frac{1}{16}$d.

17.—Quiet all week; spot and futures $\frac{1}{16}$d. lower. Impending strike in manufacturing districts. Movement of troops from India.

25.—Easter Holidays; idle market; spot nominally unchanged; futures $\frac{1}{32}$d. lower. Commencement of strike.

May 2.—Small demand all week. Spot $\frac{1}{16}$d.; futures $\frac{1}{16}$d. to $\frac{3}{32}$d. lower. Strike in N. E. Lancashire, 120,000 looms stopped.

PART II.

THE RISE OF PRICES TO THE MAXIMUM.

It would seem that there are four principal forces which are engaged in raising prices to their maximum, and it will be useful to endeavour to inquire what these are. First, we have for the foundation the increasing demand which results from consumers as a body acquiring a greater purchasing power; secondly, a diminished supply through failure of yield, &c.; thirdly, the rise which comes from the expansion of the currency concurrently with the

multiplication of trade operations, or what, in some measure, takes its place in a country where there is a higher development of the credit system; and fourthly, the topmost rise which, in some cases, is forced upon the others by Ignorance and Fashion, and the demoralisation consequent upon prosperity. These seem to be what we may call the great positive factors engaged in moving prices from their minimum to their maximum, aided and likewise hindered, of course, to some extent by subsidiary influences which grow out of contingent collateral circumstances.

What is usually the condition of mercantile affairs when prices are at their maximum? The answer is summed up in the word Inflation. If we draw a figure 5 on a shrunken india-rubber ball and then blow it out, the figure an inch long will, if the elasticity permits, become a foot long. In that metaphor we have a rough illustration of how prices rise generally, that is, the market prices of such things as most people wish to have when a nation is getting rich by "leaps and bounds," as Mr. Gladstone said. If we see this clearly, and do not confuse the examination by thinking of the effect upon prices of the fluctuations in the supply of the precious metals, there would seem to be no difficulty in accounting nearly enough for the full extent of the rise in prices up to their maximum, and for the fall to the minimum. We will suppose, then, that prices are at

their maximum through the full exercise of the four main influences to which we have referred, and that the tension of inflation is diminishing steadily until the normal activity of trade has been returned to. What do we find of an artificial nature that must as inevitably be ultimately dispersed as the air temporarily forced into the india-rubber ball? First, the world's demand for the productions of those who, in the narrower sphere of their own country, have been able to create a second demand and force up prices, begins to shrink, and the purchasing power of the great body of consumers begins to diminish through the admission of too many who do not reproduce. A rapid descent from the maximum prices follows, the retreat being harassed by the discovery so few people ever make, that if we go up hill we must inevitably, sooner or later, have to go down. Secondly, a rapid shrinkage in the activity with which commodities are interchanged through the enforced economy among consumers brings about a redundancy of currency; and where other economical means have been used as a substitute for currency there is a money panic and a general financial crash until the unsound traders have failed and consumption has been reduced to its legitimate limits.

Following the effects of a decreasing supply, where credit and economical expedients are little developed, as in France, the redundant currency leaves the country, and the artificial props to the

third stage in the rise are knocked away, and we are three quarters of the way back to the minimum. Ignorance and fashion being the last to have to yield to compulsion, by reason of their being less susceptible to the influences of the first and second stages, are not so immediately affected; but in time they also withdraw their support, partly by being compelled ultimately to discover that they are encouraging cheating by their ignorance, and setting an immoral example by extravagantly supporting frequent changes of fashion. The degree of intensity in which these several influences will be exercised depends, of course, upon circumstances, many of which recur fitfully, and in altered forms.

So far as our observation and reflection have gone these four heads seem to take in the main factors which are concerned in forcing prices from their minimum to their maximum. Each stage which we have marked out may, of course, be followed out much further, and we might fill pages with collateral influences, both pro and con, which come into play according to the ever changing circumstances which arise as the movements up or down are developed. We may have at one period of history a higher maximum and a lower minimum, as a greater storm makes the sea show a greater distance between the top of the wave and the bottom of the trough formed by the water. It is obvious, in the case of prices, that the longer abnormally high prices are main-

tained by unnaturally sustained artificial purchasing power the more violent must be the recoil, and the greater the exhaustion of those who joined in swelling a demand with unreal means. We touch here upon the dangers to which a country is exposed which has reached a high state of economical development. In England this is so much the case that we are apt to lose our way in the labyrinth of economic devices which we have invented to save time and trouble. With us inflation is carried to a dangerous point by such invisible machinery that we cannot perceive the strain upon it until it all goes together.

The height to which prices generally will rise must obviously depend, as the height of every structure does, upon the breadth of their base. The way the foundation is laid and its area is an important inquiry. Some writers hold that a course of prosperity in a country begins by a demand for one class of goods. It is clear, however, that unless the whole fabric of trade, so to speak, is constructed like a fire of coals in a grate, all parts will not take fire because a light is set to one part. A fire of coals contains in each piece of coal its own latent stored up energy which merely requires that it shall be tapped by adjacent heat, and it soon bursts into a flame. The analogy does not hold good with a dead stagnant department of industry. A foreign demand for Manchester piece goods will probably,

to some extent, react upon iron, coal, and pottery, but this only means keeping other departments of industry which do not feel the same strong virgin demand, going in the sense of not being obliged to close their works. If there be no pent-up energy in each department of trade, the vitality in the shape of an *Increasing Demand* must come from somewhere. If a demand for one class of goods springs up it is not at all safe to assume and found an argument upon the assumption that the movement in that one branch will give life to all the others. How, then, do we account for the spread of vitality from one department to another? It must arise from the birth of new force, *i. e.* real demand based on acquired purchasing power derived from the earth. It may be said, and with truth, that the several departments of industry would not exist, and could not if there were not a constant wear and tear of the articles supplied by that department which held out the hope that sooner or later a real new *Increasing Demand* would spring up and set them going again. There must, however, be an order in the return to activity of the different departments of manufacturing industry dependent upon the changing circumstances of the time. There are certain demands which can be reckoned upon to revive more surely than others, and there will consequently be an improvement in prices in certain things anterior to that in others. Food and clothes

are necessaries which people must have, even if they sink so low as to be compelled to live on charity. Those departments which are concerned with providing the million with these necessaries will consequently feel the *Increasing Demand* first. A slight and almost imperceptible return to activity in trade as a whole, will cause a concentrated force of demand to act upon those departments of production which furnish the first things consumers as a body will take more of. It has been observed, for example, that the leather trade is one of the first to show the acquisition of a greater purchasing power on the part of the community as a whole. Boots form an article of consumption which feels the ameliorated condition of purchasers as soon as anything. Everyone who can, will wear good boots, but it is an article of dress easily economised, even by those who consume the most. There is no trade also which furnishes a better example of the pertinacity with which an advance in price once made is maintained.

With prices divided into two classes, elastic and non-elastic, we can perceive that while an *Increasing Demand* will raise one set of prices from their minimum to their maximum, it will not appreciably affect the other set. This is accounted for by the fact that non-elastic prices are those which have no minimum, but, in the sole interests of the sellers of the articles coming under this head, are always kept as nearly as possible at a maximum. The effect of a reviving

demand upon the non-elastic set is to force another wedge under those which have been used further to raise the price upon former occasions of a revival of demand. The non-elastic set, in fact, is used by shopkeepers as a means of extracting undue profits from the public. What individual, for instance, is sufficiently conversant with the state of the leather market to be able to prove to his bootmaker that he ought to lower the price of boots? Who ever received an intimation from his bootmaker that a reduction of any kind was to be made? We remember our bootmaker remarking when he received an order for a pair of a porpoise-hide boots that they were dearer because boots of this material had been ordered for the troops sent out to fight the Ashantees, the peculiar virtue of this material being that it does not crack with the heat. Comparatively few pairs of boots must have been wanted for that little war, but we never heard of porpoise-hide boots being any cheaper when that special demand had subsided. The material was elastic as compared with leather, but the price non-elastic. Shopkeepers are wonderfully fertile in pretexts which they unfold in support of their own interests with a semblance of absolute truthfulness that no display of scepticism on the part of the customer can disarm. The practice of deception through generations of performers comes to be an inherited instinct.

How is it, it may be said, that such a system can prevail when the great equalizer competition is at hand? This is one of the great problems of political economy for which there seems to be no certain solution. People say political economy is not an exact science, by which we suppose they mean that the solution of its propositions is not demonstrable with exactitude like those, for instance, of Euclid. This seems to be a case in point. We all know that the non-elastic prices are in a great number of cases maintained at arbitrary maximum levels in spite of the opportunity which free competition affords to any rival trader to interfere in the interest of the consumer. We have positive proof that no solution of the difficulty has been successfully attempted for years until the co-operative trading combinations somewhat thinned the ranks of the extortionate shopkeepers, but there is no evidence at present to show that co-operation among consumers will be carried far enough to achieve their object. For the first time, however, for a very long time the eyes of the community have been opened to the abuses which have been practised upon them through there ignorance, and some shopkeepers have openly acknowledged their guilt by issuing notices to the effect that they will supply goods at co-operative prices. The great majority of this fraternity, however, had been so long accustomed to the old prices that they held back knowing well how strong their

position was through the apathy and ignorance of the public. Moreover it should be remarked, as showing the danger of allowing such prices to be maintained, that enormous premiums have been paid by the present occupants of the shops for the privilege of being allowed to have their turn at fleecing the public. To lower prices materially would mean for large numbers of these traders either ruin or a compulsory reduction in the rent. Long leases in most cases would naturally suggest the maintenance of the old system of extortion as the only solution of the difficulty short of ruin.

We have only to look at the price lists of the co-operative stores to see that some shops, partly through fear of losing their business, and partly to bring fresh custom, have adopted half measures by allowing it to be advertised in these lists that they allow a discount of 15 per cent. off some goods and 25 per cent. off others. The ignorance of the public is shown in another way by the fact that they think they get their goods the cheapest where the largest discount is allowed. The largest discount is simply a snare. Not one person in a hundred takes the trouble to find out whether he gets an article cheaper at the shop where 25 per cent. is taken off than where 15 per cent, is allowed.

If the non-elastic prices are maintained at their maximum, the public gets no opportunity by waiting of getting this description of goods cheap, as in

the case of commodities, which fluctuate in price under the regulations of market competition. Furthermore, it is not possible to lay in stocks of perishable goods, even if they allowed of consumers so doing by their falling to a minimum price. In the case of boots, the only way in which it would be possible would be by laying in a stock of leather; but this would not answer the consumer's purpose in the same sense as laying in a stock of purchasing power in the form of Government securities. It would seem, therefore, that consumers are, as regards commodities with non-elastic prices, at a permanent disadvantage, and pay exorbitant prices for most of the articles in this category, their not doing so being accidental and quite exceptional. We do not, then, seem able to escape from the inference that the artificial conditions under which we live not only to a very material degree favour conspiracies of class to defraud class, but necessitate it, or a large part of the fabric upon which society at present rests would collapse. The problem to be dealt with seems to present a chain of abuses, every link of which has been forged and reforged as time has elapsed, upon principles beneficial only to those whose interests are centred in that link and antagonistic to the interests of all others. For such a state of affairs to be maintained either one or more considerable sections of the community is in a position of emancipated serfdom and under the heel of

all the others, or the whole nation, from the bottom up to the top, have been merely passing on the abuse instead of protesting against it and rooting it up, and laying the unjust burden on the foreigner by making him pay too high prices for our manufactures. It is quite conceivable that such a process has been in operation, although, from the extreme complexity of trade dealing, it has not attracted the observation it deserves. In fact, it may be said that a commercial crisis is a revelation of this state of things being brought to a head. To follow this out, we have only to place ourselves in the position of a trader at the bottom stratum of society. He begins by forcing his prices up at the first opportunity either presented through scarcity of the raw material or excessive temporary demand. The members of his fraternity tacitly conspire to keep up prices by all the arts known to them. The stratum above them finding they have permanently more to pay for a given number of articles which the lowest stratum supplies retaliates by charging more for what they supply either in manufactured articles or professional services. Number three stratum being in want of more things of all kinds, having more dependents, has to face a combination of conspiracies and must retaliate in their turn. We will suppose for the sake of argument that number four stratum takes in the flower of society, the merchant princes, bankers, lords, ladies, and wealthy commoners, living partly

on accumulated purchasing power in the form of land, houses, foreign possessions, consols, railway debentures, preference stocks, and Colonial Government bonds, and partly on the picked trade of the country. How does this important section retaliate? It would appear that the stratum which has the most to buy must suffer the most, unless they can draw upon a source which is in itself an inexhaustible purchasing power. A country which has mines of iron and coal is in such a position, as the topmost stratum simply employs the bottommost in digging out and carrying to market their purchasing power. It is a curious fact also that it is just where these extremes meet, and where conspiracy can be carried no further, that the sharpest rebellion occasionally occurs. Labourers know that the article in which they deal cannot easily be obtained if they strike, and that what they get out of the earth must be produced sooner or later or a dead lock occurs. As regards the indigenous products of the land, therefore, we may say that all the other strata are indirectly proprietors, as, by charging more than they have any right to for what they supply, the artificial non-elastic prices can only be maintained by the means which the earth itself affords to the higher strata of consumers. The highest stratum of society draws also its purchasing power from the dealings upon a larger scale with foreign nations.

Apart from considerations affecting prices in a

merely nominal sense we seem to arrive at the conclusion that we are surrounded by artificial values, and that cost of production and utility enter really only partially into the question. There must be some persons who cannot retaliate except by denying themselves, and it is this class which suffers. They are, in fact, in the position of annuitants who receive their money in a depreciated currency. Commodities are not only forced up against them in times of prosperity when they gain nothing in a positive sense, and do not share in the extra profits which are being made, save indirectly, but are maintained in many cases at artificial prices, and in others at those which are prohibitory.

We then arrive at the question of who derives the first benefit of an *Increasing Demand?* If what we have said is correct the traders who deal in non-elastic articles do not feel the benefit first, because, although the evil which we have attempted to demonstrate as having commenced from the bottom stratum and worked up, it is the higher strata who, as a rule, own the soil and the mines, and the great sources of wealth which feed the others in their turn spreading out until the base of the cone has been touched by the movement.

Manufacturing industries, it is true, depend for their activity upon the reverse action, and it is only after the lower strata of consumers have acquired an increased purchasing power that these industries

can, after a period of stagnation and minimum prices for the great staple commodities, be fully employed.

The lower strata of traders seem to have fenced themselves in against the disadvantages under which they labour in being the farthest removed from the effects of returning prosperity, by adopting this policy of maintaining prices at the maximum as far as possible. Those who deal in necessaries argue, no doubt, that the population is always increasing, and that they would gain less by the small increase in the number of things purchased in response to a reduction in prices, than they do by keeping up the figure for an average sale.

The artificial support given to prices through the inability of a large proportion of purchasers to pay ready money is a proposition incapable of complete demonstration because it is impossible to obtain accurate data. There are, however, many things which are known to us, as it were, by intuition which we cannot reduce to formulæ, because, although seen and known to exist as active influences, are intangible. They can only be employed, in working out theories, as unmeasured inferences. Astronomers up to this day cannot measure accurately the distance of the sun from the earth, because they cannot perfect their measuring apparatus. In the same way we cannot pretend to be able to say precisely to what extent artificial support is given

to prices through the inability of a large proportion of purchasers to pay ready money, because we cannot ascertain nearly enough the influence upon prices of the undue extension of the credit system. In reply, it may be said, whether people buy on credit or for ready cash—all the same they buy—and the effect upon prices is to raise them by legitimate means. In this view we cannot concur. A legitimate reason for buying a commodity is, that it is required for legitimate consumption, or to satisfy a reasonable requirement. Beyond this, production is stimulated to waste, and prices are raised by fictitious surplus buying, which is demoralizing to the buyer who is almost sure to waste a part of what he seems at the time of buying to get very cheap; whereas, as is the case with everything not really wanted, it is very dear. If it be allowed that traders take every opportunity of raising prices and do all in their power to prevent them from falling again, it is evident that the credit is used as an artifice to induce purchases of commodities which would not otherwise be made, and is thus made to serve as a means of supporting prices at a fictitious level, which probably could not be maintained if the buying consisted solely of ready money business. The inference from this would, therefore, seem to be that buyers not only suffer by making themselves liable for debts out of proportion to the real value of the article purchased, but they suffer a double

loss by being tempted to take on credit what they do not want.

This it should be remarked applies more to retail than to wholesale business operations, and proves to what a large extent the ignorant lower strata of the community are preyed upon by the upper strata, and also how the latter protect themselves by the system of open markets and recorded fluctuations in prices, although it is quite as necessary for the individual member of a community to buy no more for his personal and household wants, than a manufacturer does of the raw material for his works, it is quite certain that the former, on the average, shows no such providence, and it is owing to this looseness and extravagance that retail prices can be supported at a fictitious level. It cannot be pretended for a moment that the fictitious price asked of those who avail themselves largely of credit is necessary to cover the interest on the money, and the risk of not getting it at all. Take for instance the beer that is sold by publicans. A man who runs a score at one of these houses pays, say 2½d. a half pint = 3s. 4d. for one gallon, or £1 10s. for nine gallons. Nine gallons of this class of beer is very well paid for at 8s., consequently the individual who has not the 2d. ready money, and is therefore obliged to pay 2½d. to get it on credit, is charged about three hundred per cent. more than the article would cost him if he bought the nine gallons for

ready money. This is no extreme case. Many others might be cited. Take that of tailors. Prices are in this trade kept up enormously above what ought to be charged simply on the excuse of having to give credit. It is not true that there is no necessity for ready money buyers to pay more than a fair price for clothes made by tailors. As in all trades, there are no doubt workers in this who start on the principle of being satisfied with a legitimate profit but they are very few and far between. Like dissenters from the doctrines of the established church who pretend to look upon the indulgence in all luxuries and everything connected with what they have not got themselves, as wicked and vicious, such people only adhere to this order of principles until they acquire the capacity to join the more worldly band. The number, at any time, of those who are gaining a *clientèle* by charging the lowest possible prices, is so small that as a factor in the argument against what we contend for, it is of no value.

CHAPTER V.

ARTICLES FOR WHICH THERE IS A SMALL DEMAND.

Commodities for which there is but a small demand, will naturally have less attention directed to their intrinsic value, than articles which are purchased to ten or a hundred times the amount in a given time. Things which are but occasionally, required, comparatively speaking, such as rare wines and fruits, exotics, jewelry, lace, pictures, and other works of art, are more likely to be raised relatively than lowered in price in a progressive country for reasons which respond to a little inquiry. In the first place, people who are in the habit of purchasing luxuries are generally well supplied with money, and instead of making it their business to educate themselves in the value of things with the object of paying as little as they can, in a large number of cases they even pride themselves in their capacity for excelling their friends in the art of getting as little as they can for their money. A very considerable proportion of the wealthy denizens of the rich part of great cities are systematically bamboozled by the shopkeepers

as to the real value of the goods they sell. This is partly due to the fact that the rich flâneur does not mind much what he pays so long as he is given no trouble in procuring it. Shops are opened in quarters where the rents are very high, and everything that is sold there is not only raised in price to cover the high charges of the fashionable quarter in which the shopkeeper has to store his goods, but is overlaid in addition with a fictitious further charge which is made to satisfy an idiotic vanity which finds satisfaction in proclaiming that it pays more for everything than other people. The result of this method of raising the price of articles in certain districts is evident. Fashion in prices as well as in dress with some people amounts to a passion. If a thing does not cost a sum which is associated with the best article of the kind, some people will not have it. This is carried so far that even an article of inferior quality will find approval provided only it is associated with what is better, by being equal to it in the price demanded. The further pernicious effects of this method of raising prices is that it becomes chronic under the strong influence of the desire of shopkeepers generally to get all they can out of the buyer. Remonstrance on the part of the purchaser is always met with the excuse that the prices of the materials out of which the thing is made have risen, and that the article is charged much more for in other quarters.

The astuteness of the Hebrew race with regard to the sale of works of art, old jewelry, &c., has no doubt been observed by many others. Jews know the advantage they have over the unwary enthusiast in dealing in things the value of which it is very difficult for the best judges to estimate. Some time since a lady, whose husband was very rich, took a fancy to some ivory furniture in a Jew's shop, and ordered it to be sent home. When the bill came in the total of £12,000 filled even this rash lady with overwhelming disgust at the recklessness of her folly. What the husband's feelings were is not recorded. The lady sent the furniture back, but Israel smiled as he knows how to smile sorrowfully and sympathetically when he has webbed a large fly. Like Lord Beaconsfield with the Stefano Treaty he stood firm. The highest market value of these hard pale chairs was half the money the lady had made herself liable for, and which, moreover, she had to pay, without the abatement of a hair. If a purchaser were to be charged £20 for a new saddle of the ordinary kind he would be fully justified in telling the seller to his face that he was a cheat, but if he were to take a fancy to an old vase, that might or might not be a Benvenuto Cellini, the seller could ask anything under the protection of it being next to impossible to get any two connoisseurs to agree about its real value. Thousands and tens of thousands of spurious imitations of works of art have

been foisted on to the ignorant plutocracy by a fraternity whose business seems to consist chiefly of cheating and swindling their weaker fellow creatures.

The regard which is paid to the susceptibility of people's feelings is a circumstance much in favour of the shopkeeper in this nervous age. Nine persons out of ten once in a shop are half afraid to come out without buying something. The spider behind the counter knows this well enough, and reckoning upon getting so many new comers in his web in the course of the day he will get as much as possible out of each. The liability of many persons to be thus deceived is exceedingly demoralising, as it is evident that it is a great temptation to pursue a course by which excessive profits are realised, and fictitious prices permanently sustained.

Articles which are in small demand, and which are consequently produced upon a small scale, no doubt in many cases must be charged comparatively higher prices for, judged by the standard of the relative cost of production; because the machinery and experience required for their manufacture cannot be guaranteed such continuous employment as in the case of articles which are largely and regularly consumed. This, perhaps, does not apply so forcibly to all non-perishable articles as it does to those which are rapidly perishable. As an article of food, for instance, fish is extremely perishable;

but we are of opinion that the relative prices maintained for fish are considerably above what they should be in all towns. Our reasons for this opinion are that we know, and it is nothing new, that rather than reduce the price of fish, many dealers in it prefer that it should rot rather than be sold below the figure they ask and are accustomed to get. So great is the fear of a decline in the price of any kind of fish being established in cases where entries are made in customers' books, that a considerable occasional loss is accepted in preference to a proportionally smaller loss as the result of a clearance of the day's supply at cheaper prices.

CHAPTER VI.

CAPITAL THE PRINCIPAL, AND LABOUR THE AGENT.

One reason why the operation of increasing the wealth of nations has undergone so important a change during the second half of the present century is, that whereas formerly labour was a principal and capital an agent, now capital is the principal and labour the agent. Such a transformation is a new departure pregnant with results which have been for years past working a revolution in both foreign and domestic commerce. The war between capital and labour has been a long and severe one and immensely injurious to both, but the course of events seems to show that the former is by slow and steady degrees triumphing. That such should be the case is not surprising. That the "weakest must go to the wall" is a truism of which none feels, and sullenly though tacitly acknowledges, the truth more evidently than the labourer himself. It must in the very nature of things be an extremely hazardous thing under all circumstances for wage-earning labourers to

attempt to coerce their master by strikes. The worst passions of which man is capable are thus stirred up, and we all know when once a course is determined upon which has its origin in a dispute between master and servant about wages, that the one with the least power of material resistance must suffer the most in the long run. So far as our own observation has gone we are of opinion that strikes among labourers are on the wane. There has been of late years a manifestation of faintheartedness among the leaders and instigators, which is the surest sign that discontent and distrust prevail among the followers. A man whose belly is empty is apt to be a very unreasonable being, and the worst possible subject upon whom to impress the necessity of philosophic endurance. The longer the labourer holds out the more obdurate becomes the master, especially a British master, for if there is a nation that can furnish a model for a statue of unrelenting adamantine obstinacy under provocation from those whom he thinks are his unjust and ungrateful inferiors, it is the British.

The following leading article from the 'Standard' newspaper on the mischief done by our Trades Unions happened to come before us when writing these lines.

Even the most sanguine supporters of the Agricultural Labourers' Union must admit that the institution has been by no means a success. It was started with a great flourish of trumpets. It was

to rouse the agricultural labourer, who was described as in a position little better than that of a Russian serf, to a sense of his utterly degraded condition, to make him rise against his employer and look upon the squire and the parson as his natural enemies, to teach him how to strike, to confer upon him, in short, all those benefits which Trades Unions were supposed to have bestowed upon his more fortunate brethren in cities. At first, no doubt, this programme attracted a certain number of adherents, The ideas promulgated by the delegates of the Union were novel ones, they held out promises of less work and more wages, and although the great majority of the agricultural labouring men held aloof, wisely remembering doubtless the old proverb about a bird in the hand, still there were many who were quite willing to strike and be idle for a time, to see what Messrs. Arch and Co. would do for them. The average labourer is not a man of extraordinary acuteness of perception, but when he does see a thing he grasps it with much tenacity, and accordingly it soon became firmly rooted in the labourer's mind that his new friends accomplished very little, and that in allying himself with them he had lost some old ones who had done a great deal more for him. In places where he went out on strike he brought a great deal of misery upon himself and his family; he discovered that men were imported from other neighbourhoods to do his work who were glad to take the pay he despised, and he found more machinery introduced where, before he took up arms, it had not been adopted, simply out of consideration for him. Here and there, it is true, wages were raised through the instrumentality of the agitators; but the same results could have been brought about in a much simpler fashion, and without all the bad blood and ill-feeling which the delegates stirred up, much of which exists to this day, and tells hardly against the labourer and his family in the hour of sickness or need. But even such success as the Union achieved in the way of producing strikes was confined to very small areas, and in the vast majority of cases the answer of the down-trodden labourer was much the same as that of the knife-grinder to the 'Friend of Humanity;' he had no particular wrongs to complain of, and he answered as in *The Anti-Jacobin*, 'Story, God bless you, I have none to tell, sir.' That was and is no doubt very hard upon the Union and its delegates. There is nothing so exasperating, when you have informed a man that he is an ill-used slave, as the reply that he does not see it, is perfectly contented,

and declines your interference in his affairs; and that is the kind of answer which the agitators of the Union meet with in the vast majority of villages in this country. Although much labour and eloquence have been expended upon him, the worm obstinately refuses to turn, and the Union finds itself in a rather awkward position.

It is obvious that a crusade of this kind, carried on under such circumstances, must be an expensive business, and the matter becomes still more serious when we discover how the money collected for the purposes of the Union has been spent. It is by no means easy to get at the details of the balance-sheet of the Union; but from certain figures supplied to us it is hardly too much to say that the labourers who have subscribed have been financially as well as politically deluded. The only encouraging fact which meets us when examining the figures is that the support accorded to the Union is steadily declining. Thus, while £11,621 odd were subscribed in eleven months of 1876, there was a decrease of £358 in the subscriptions of the whole of last year. The money is spent after a fashion which must convince the most unthinking labourer that he had better have paused before he subscribed to such an institution. The working expenses are outrageous in proportion to other items. We find that the total expenditure of last year—the managers having of course a balance to draw upon as well as the current subscriptions—was £19,680, of which sum no less than £11,871 was devoted to working expenses! Thus it will be seen that the enormous amount of 152 per cent. is spent in giving relief—truly an economical way of managing a business. Some of the items are curious and instructive. A strike at Swaffham cost upwards of £1685, and a newspaper, published solely in the interests of the Union, cost nearly £3000, while we are not told that any money was received either for sale or advertisements. This does not seem a profitable business for the labourers, but they may console themselves with the reflection that certain delegates and others benefit by their pennies. The salaries of secretaries and delegates in 1877 amounted to £2674, of which sum we see that Mr. Arch received £256 2s. 6d., while twelve other agitators were paid sums ranging from £97 to nearly £200. We do not insinuate that these gentlemen did not earn their money; on the contrary, we have no doubt they worked hard for it. But we would commend these figures to the consideration of the labourers who subscribe to the Union. Does

it not occur to them, in the first place, that a wholly inordinate amount is spent in salaries, and secondly, that while these men can earn more by such work than their ordinary avocations they are likely to promote dissatisfaction and strikes rather than peaceful methods of settlement, since their very living depends upon the continuance of disputes between masters and men? Thus, as we have said, one strike cost a large sum, to say nothing of others unnamed, and undoubtedly a certain amount of that money went into the pockets of secretaries and delegates who would not have received it had no dispute occurred. Still more reprehensible is the manner in which the sick and benefit funds are managed. Against the advice, it must be admitted, of the chairman and the solicitors to the Union, the money subscribed to the sick and benefit society, instead of being carefully kept apart, has been thrown into the common funds of the Union, and thus any extra strain upon them will run away with the money and leave the subscribers without a remedy. Incidental expenses of various kinds have also been heavy. The Union seems fond of litigation, and four lawsuits have already cost it upwards of £300. True, it secured the election of a working man as a churchwarden; but if those who may come on the sick fund should find that there is none of the money remaining which they have subscribed, they will be apt to look upon that functionary as a rather expensive luxury. We also observe that, according to the *Leamington Courier*—a paper published at the head-quarters of the Union—it has taken a farm in Leicestershire, and, after borrowing money from the trustees, has been informed by its own solicitors that its action is against the laws of the association, and that the money has consequently been illegally applied.

We might give other instances of the way in which the Labourers' Union is managed, but we have said quite enough to show that there may be an awkward day of reckoning for the managers of this institution when the subscribers begin to demand from them an account of their stewardship. Well might a labourer ask the other day how all the money was spent, and desire "to know where the sick pay was to come from when they wanted it;" and no wonder that grave dissatisfaction is spreading, even amongst those who have hitherto been most devoted to the Union. "Save me from my friends" will be the cry of many a labourer who has been induced by specious promises to join this society. This is no

question of the abstract right of men to combine, or even of the advisability of establishing Trades Unions for the purpose of fighting capital on better terms than labour could command without combination. But granting the necessity for such a Union as this, what has it accomplished? Instead of doing good it has done incalculable mischief. It has sown the seeds of discontent where none existed before the coming of the agitators. It has in many places brought about a very bitter feeling between masters and men, without gaining the latter a penny more wages, and it will take years to mend matters. It has stirred up the working men against their kindest and oldest friends, the parochial clergy. And what has the Agricultural Labourers' Union offered in compensation? The untutored eloquence of Mr. Joseph Arch, the presence of well-paid secretaries and delegates, a weekly newspaper that nobody reads, a sick fund upon the existence of which in the day of necessity nobody can rely, and a board of management which absorbs the labourer's hard-earned pennies and gives him nothing in return. Assuredly the common sense of the British Agricultural labourer must have deserted him when he joined this Union, and unless some wonderful reformation is effected, after this exposure of its position and shortcomings, its ultimate dissolution can be only a question of time.

Capital has got the upper hand of labour because although the amount of available labour has increased, capital has increased in a greater ratio. Capitalists although depending to a material extent upon labour depend less upon individual labour than they did formerly, because it has been to a large extent superseded by mechanical labour.

There is likewise more concerted action between employers than formerly, a circumstance which obviously tends to discourage the wholesale migration of wage-earning labourers. There is closer commercial communion among principals. All

workers are better known individually than formerly, the result being that a man who attempts the rôle of an agitator with a view to organise a strike is soon shown up, and becomes a marked man. Such an one has great difficulty when once out of employment to get in again anywhere. There is quite enough difficulty in getting through the world's work before the sun goes down without being bothered with the eccentricities and unreasonable discontent of the workman. A man who sets out on an agitation crusade must therefore get hold of one rope before he leaves go another, or he may find himself in the turbulent waters of adversity, when he will probably realise also that the friends who were once the warmest are now the coldest, and are looking another way.

As the taste for war loses its flavour under the influence of the spread of comfort and the disappearance of races whose instincts run counter to the process of evolution which is precipitating the evil tendencies and roughness of the human heart, a larger proportion of the people who have tasted them are becoming satisfied with less of the good things of this life if they can have quiet and sufficient bodily and mental refreshment. As years roll on the taste for ostentatious display must in the very nature of things decline. Nothing is so soon satisfying as empty pleasure, pleasure which has nothing left in it to think about when the taste

is done with, but the mere satisfaction of having outshone some other fool with a more elaborately gilded coach or heavily laden dinner table. Education and refinement soon make those who can indulge in these tawdry shows estimate their effect upon the world at their true value. So much of it is brought out for inspection with other people's money, like the medals and the ribbons and the uniforms which are signs of distinction, the difficulty being great to distinguish between the truly deserving owner and him whose carpet-valour has been recognised by a friend at court, that the intrinsic value of such finery, when exhibited merely to excite wonder and admiration in others, soon falls from a premium to a heavy discount. Those who come into the world with nothing are now getting more and better chances of real distinction than was the case formerly, and the inheritors of great estates are, as compared with the populations of the earth, like the great mountains which remain in their isolation to testify to the higher outlines of the earth's ancient formation, while the lower prominences yield more rapidly to the destructive activity which swells around them. This in one sense may be said to be a levelling down towards equality as regards material wealth, while as regards intellectual wealth there is levelling up. In Africa the tribes prey upon each other because there is often no other means of subsistence. A civilised

man in difficulties is even in this age not restrained as a rule from proceeding to immoral extremes which he would strongly condemn were he under better influences, but in proportion as the generally improved well being of individuals spreads, the number to be so influenced obviously diminishes, and there is consequently less likelihood of organised war between labour and capital.

It cannot be said that since the more general use of machinery fewer labourers are required. The contrary is probably the case, but since the more general employment of machinery and the new inventions which are applied to almost every description of labour formerly done only by hands, capitalists are less dependent upon hands. In other words, with the aid of machinery it is now easier in all departments to teach new hands than it was when no machinery at all was used. A remarkable case in point is to be seen at Woolwich Arsenal in the department for the manufacture of cartridges and other of the smaller kinds of raw material. The machinery has been brought to such a state of perfection at a cost for the whole establishment of about twenty millions sterling, that a few hours of instruction is all that is required to qualify new hands to superintend the working of any part of it. If all the hands were to strike at a critical moment, in forty-eight hours we were told that the entire staff could be replaced and made as efficient as those who

had deserted. This is a triumph of capital over labour of the most momentous character, and it is impossible to conceive an advance and gain on the one side over the other which is more calculated to stagger and reduce to humble submission the thoughtless folly of workers who are tempted by the prospects held out to them by agitators who propose to themselves to coerce their employers into paying higher wages. What has been done in one field of labour, the government war manufactory, has been done in others with probably equal success, and there can be no doubt that it will be extended to all; for of all the difficulties which master manufacturers have to contend with, nothing is so fraught with danger and annoyance as a strike which is sure to be threatened just when the consequences would be most disastrous to the capitalist. If in remote country manufacturing towns there were the same certainty of being able to replace within a reasonable time a staff of workers who had struck, they would be effectually disarmed, and strikes would be for ever at an end. That we are approaching such a state of things is quite evident, and it is to this significant circumstance that the fainter heartedness of more recent strikes has no doubt been due.

All kinds of business being now carried on upon a larger scale the proportions of material necessary for working have changed. To commence any kind of business the first requisite is the capital or pur-

chasing power. No one who starts a company thinks first of engaging a manager and clerks. The first thing to do is to raise enough purchasing power to be able to enter into competition with others duly equipped. This comes from the more extended area over which business must be conducted. It is necessary in a word to possess as the first requisite a universal buying power. Where a man has one field to till, a couple of horses, a man and a boy, the seed to sow is all he wants. This is one extreme. The other is a manufacturer who, on the one hand, must buy his raw materials from all parts of the world and send his manufactures to foreign buyers. His machinery, which is capital sunk and doing work which could not be performed at all without it, executes more work than could be done, supposing they were capable of doing it, by five times, perhaps ten times, the number of men required to look after it. The prime motive power of the whole, the steam engine, alone demonstrates the proposition that capital is now the principal and labour the agent. The danger which a country drifts into with a vast amount of capital sunk in machinery, when either the demand for its goods heavily declines temporarily, or when other nations, her customers, achieve a position which enables them to make the same things cheaper for themselves, is a question we have spoken about in another chapter. England is limited to a certain

expansion of manual labour, and hence one incentive to the development of machine power by which a much larger amount of work can be executed in a smaller space and a shorter time. Countries with practically no limit to the expansion of labour will obviously be slower to sink capital in machinery, especially where the essentials of coal and iron are not easy of access. These being easily obtained in England while labour is comparatively dear, she has been forced, by the necessity of supplying the foreign demand for her manufactures, to sink enormous amounts of capital, and thus place herself at the head of the movement which finds expression in the sentence at the head of this chapter. Those who, notwithstanding this partial dispensation with their services continue to treat the enormously increased power of capital as compared with labour with the contempt which is implied by their striking and driving the trade away, are, we believe, beginning to discover their error. The rapid submission of the operatives in Lancashire in the early months of 1878, and the distinctly humbled tone and demeanour indicating defeat of their leaders, testifies strongly to the fact that a clearer perception of the course they should adopt in their own interests is at length dawning upon these people. As a body they are not so much to blame as the visionaries who have pioneered them into a wilderness which they were promised should turn out to be a land flowing

with milk and honey. Like other misguided crusaders they have tasted the gall, and finding it bitter are now retracing their steps at least wiser if not better men.

CHAPTER VII.

THE DISTRIBUTION OF LABOUR.

One reason why the commercial depression of the past few years has adversely affected this and other countries so much less than in former times is because the facilities for distributing unemployed labour both in this country and those to which labourers principally emigrate have been largely extended. The extension of railways in the first place was the means of bettering the condition of the labourer by conveying the surplus supply of food from one district to fill the deficiency in another, more particularly of rapidly perishable commodities. The cost now for carrying one hundred pounds of wheat from Chicago to New York is nine cents, whereas the value of that grain was consumed in going the same distance twenty years ago. This was a distinct gain to the existing powers of production to the extent of the yield of the labour by such means set in motion. The extension of the telegraph further aided the movement by putting the different districts into speaking connection. Secondly, the extension of railways, more particularly abroad during the last

decade, supplemented the distribution of food according to requirements by the distribution of labour, which is even a still more useful work from the point of view of the wealth of nations. The cheap transfer of idle labour to a point where it is wanted is a factor in production of the highest importance.

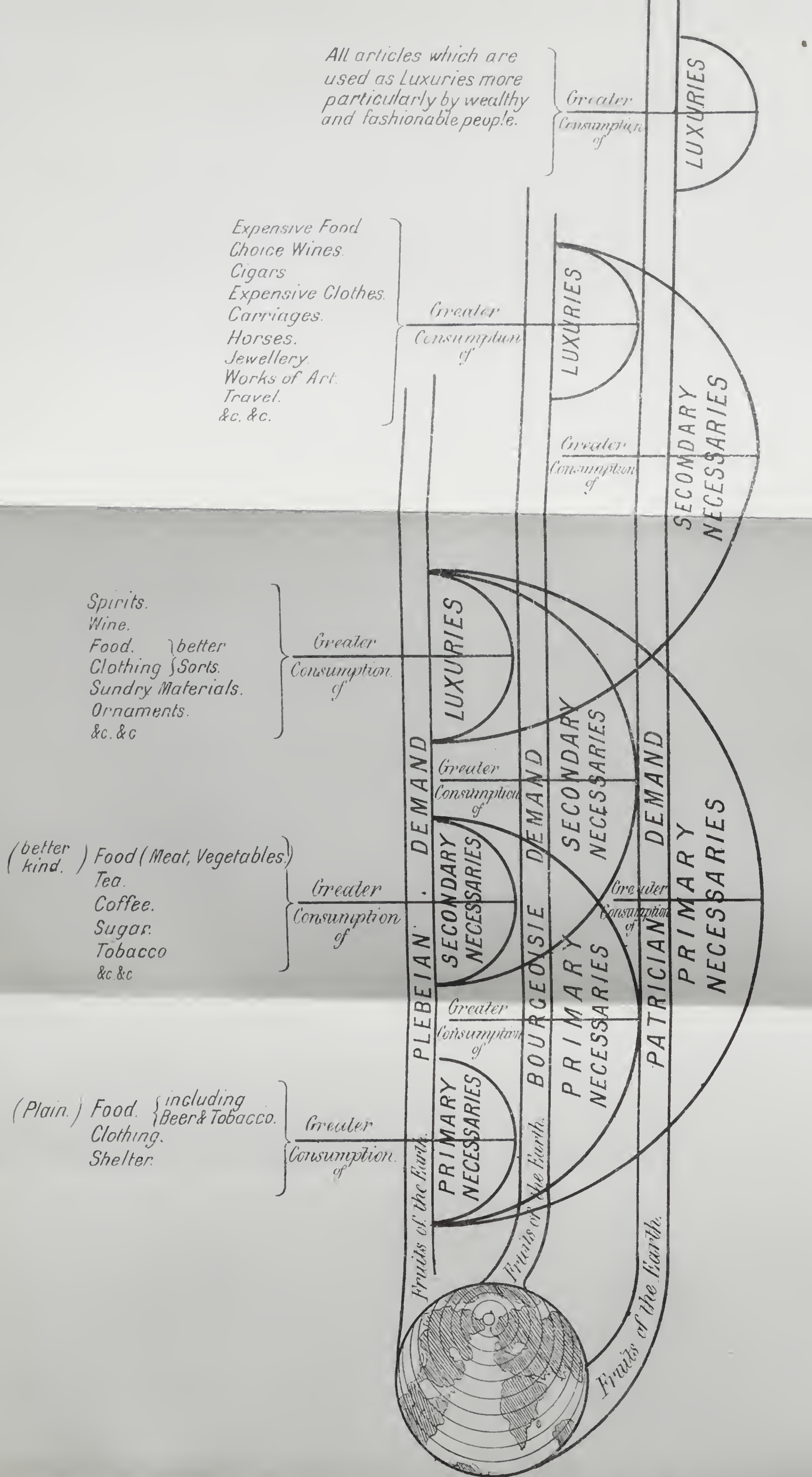
It is, however, to be regretted that statesmen have not at all times done their best or wisest to guide the distribution of labour into the right channels. There is little doubt in the minds of thinking economists that the ministers of General Grant made a great mistake in not funding their greenbacks, and leaving their public bonds to be redeemed until a more fitting opportunity. Such a measure would have very materially hastened a recovery from the stagnation in industry which prevailed in the United States during President Grant's tenure of office. One of the great evils of depreciated paper currency was laid bare by those errors of state policy. One of the worst effects of such a currency is to enhance retail more than wholesale prices, causing a rush of labour into distribution instead of into production. To encourage the extension of machinery for facilitating distribution is a prime necessity no doubt with statesmen, but the machinery having, to a large extent, been perfected in that country it was surely under the circumstances a great error to permit the continued

existence of a condition of the currency which starved the one and overfed the other, when that condition could certainly have been ameliorated if not altogether removed by the same if not less means than were being employed to reduce the public debt. The prosperity of a state depends obviously a good deal upon the proper distribution of labour as the pressure of taxation is thereby equalized and lightened.

CHAPTER VIII.

THE ACTION AND REACTION OF DEMAND AND SUPPLY IN THE INTERCHANGE OF COMMODITIES.

We have attempted to construct the foregoing diagram with the object of more clearly demonstrating our meaning to those who may be interested with us to try and follow, and reason out the action and reaction of demand and supply, as the effect of each first benefits one class, and then in the process of raising prices confers a benefit upon those from whom the movement originated. A study of the works which have been written in the past to elucidate these complicated propositions shows how much deductive error has prevailed among the most enlightened, and we are therefore fully alive to the necessity of treading warily for fear some vital element in the calculation lies hidden, the discovery of which may upset what may seem to be the most perfect theory. There are, however, broad outlines which may be traced after a certain amount of experience, observation, and reflection, which should enable us to arrive at tolerably definite conclusions as to the operation of a



SUPPOSED INCREASING YIELD OF THE EARTH.

THE THREE STRATA DIAGRAM.

course of increasing demand for commodities generally, which takes its rise from a solid foundation, such as the improved yield of the Earth. The progress of a nation in the acquisition of material wealth is after all very similar to that of an individual. His various wants which spring up with his increased means of satisfying them are much the same as the varied wants of a community whose individual members constitute combinations of demand according to their peculiar desires or necessities. For the better analysis of the way in which the different commodities are likely, under ordinary circumstances to be inquired for, upon a larger scale in proportion to the increased capacity of acquisition which the better yield of the Earth may afford the different sections of the community, we have made the division into three classes or strata, under the heads of Plebeian, Bourgeoisie, and Patrician. The degree in which these overlap each other, upwards or downwards according to the classification to which their position as regards material wealth would entitle them, we do not enter upon. We are in this case supposed to photograph the community at the second between two Kaleidoscopic transformations, and of course there must be a good deal assumed, because absolute proof is unattainable. This diagram is of course very rough; but, however, rough, if it enables a better understanding of what we shall try to explain, to be

arrived at, the object is achieved. Because this science is inexact and incapable of linear demonstration, that is no reason why we should not try to aid the mind's eye by the body's eye, however imperfect the illustration. We start from the Earth, not *ab ovo usque ad mala* but *ab ovo usque ad* an assumed condition of things which we may call suspension. The three classes or strata we assume are about to feel the effects of an increased yield of the Earth sufficient to produce a demand for commodities and luxuries that will stimulate trade and manufactures, and increase generally the demand and supply. At the time when this may take place one branch of business may be more active than another, and one stratum may possess a purchasing power enabling it to consume a greater relative proportion than the others. According, as this may be the case, of course the new effect which we assume is to be introduced throughout the whole system, would exercise an influence upon that stratum or some of the individuals composing it, different to that which would be felt by those otherwise circumstanced. We introduce these remarks parenthetically, that the reader may understand that we do not pretend to lay before him an exact demonstration, which we are of opinion it is not possible to produce owing to the extreme complexity of the subject.

We must try and see clearly at the start, and

must keep in mind that we are building a platform from which to try and obtain an accurate view of the way in which prices are forced up by increased purchasing power derived from an increased yield of the earth. We begin by drawing three channels having their source on the surface of the earth, each representing a different stratum of purchasers and consumers. It seemed at first desirable to give the diagram a single trunk to start with, but subsequent consideration decided us to give each stratum its separate channel because it can be shown that all are *directly*, as well as indirectly, affected, although in different degrees, and also because, in some degree, all are likewise simultaneously affected, or nearly so, by the same influence which benefits any one of the strata. In a word, the benefits of an increased yield of the earth touches the whole community either in a negative or positive sense.

From the diagram it would appear that the plebeian stratum is benefitted sooner than the other two, because that section is shown to consume commodities on an increased scale before the other two. It is a question of increased purchasing power affording the opportunity to those suffering from enforced abstinence to satisfy their requirements as regards primary necessaries. The lowest stratum is the first to give up its luxuries, next its secondary necessaries, and thirdly, to reduce its consumption of primary necessaries, when the tide of prosperity

has turned and the prices of the nation's productions are on their descent to the minimum, thereby lessening the aggregate purchasing power of the country. On the other hand, when the rise to the maximum has set in, the effect of increased consumption among the labouring classes is the first to show itself, just as the low-lying indentations of the shore are the first to be filled by the water of the rising tide.

Although, however, the lowest stratum is the first to show the effects of an increased purchasing power it is not the first actually to feel it. The highest and then the middle stratum should know sooner than the lowest that an increased purchasing power was being distributed as the result of a better yield of the fruits of the earth. The owner of an estate who walks out and surveys his acres alive with ripening wheat, barley, oats, and root crops, is in closer contact with the benefits to be derived from that good harvest than the labourers he employs to garner it. We realise the difference here between the manner in which one possessed of accumulated purchasing power is affected by a good harvest, and the way in which the one whose consumption of primary necessaries expands and contracts according to the ability of the employer to pay high or low wages. While the consumption of primary necessaries among the plebeian stratum falls to a minimum, there will be some diminution in

the quantity consumed by the bourgeoisie, but probably no difference in that purchased by the patrician section. Such a condition of things means a total abandonment of luxuries by the lower orders, and a very material reduction in the consumption of secondary necessaries. The bourgeoisie will at the same time, to a material extent, have given up luxuries of the higher order, and will have reduced their consumption of secondary necessaries, as shown in the diagram. Where there is the largest amount of accumulated purchasing power, there will obviously be the steadiest consumption of primary and secondary necessaries and luxuries because an income is spent which is founded on an average revenue. The bourgeoisie, taken as a whole, will have to follow the lead of the plebeian in proportion to their means, and the same may be said of the patricians. If the nation makes less money all classes will, in the aggregate, have less to spend; there will be, as a natural sequel, a diminished demand and a diminishing supply as the result of production upon the scale previously maintained being unremunerative.

We will now suppose prices to be at their minimum, and with the object of following up the rise from the lowest point we will place ourselves figuratively upon the earth at the base of our diagram, from which point we can see the three channels which are supposed to contain consumers waiting to

feel the effects of an increased purchasing power as a consequence of a good harvest or through the acquisition of larger means from other sources. Although the two upper strata are more closely in contact with the increased purchasing power, by reason of their accumulated proprietary wealth, as we have stated, the vibration of the new movement affects less visibly the more solid elements in the community at first. The labourers being nearest the earth, an increased distribution of the virgin yield has to be made among them at once by way of strengthening the machinery by which the fresh and increased fruits are to be gathered. Supposing that the nation generally is fortunate in this supposed good season, the labourers, as a body, find themselves receiving better wages. The base of the cone of society has thrown off its stagnation and simmers with new life, spreading its freshly acquired purchasing power in all directions like a creeper throwing out its tendrils and shoots by the force of the sap which the warmth of spring drives up the stem. The result is a greater consumption of the primary necessaries as we have marked them at the lowest point of the plebeian channel.

Before we leave this first point of departure, it may be as well to say a word about the possible condition of affairs as regards the state of money and credit, and the circulation of notes, at the time such a new movement comes into operation. Al-

though changes in the extent of credit granted by the banks and others, the act of influencing the foreign exchanges by raising the Bank-rate to protect its gold, and the increase of the paper and metal circulation in accordance with the fluctuating demands of commerce, of necessity, exercise more or less passing effect upon the prices of commodities; these causes produce no material influence as compared with the great cause of the rise of prices which it is our object to examine. The increase in the circulation of the bank at those seasons when the Government salaries, Army and Navy pay, and rents are distributed, exercise little or no effect, for the simple reason that if any effect were to be produced it would have already taken place, as the purchases of commodities are made on credit in advance by 99 persons out of 100. For an increased circulation to influence prices upwards and keep them there, the notes or coin must be retained as a permanent addition to the currency so that it pervades all channels down to the wages limit. Everybody knows that if other things remained the same, a doubling of the gold in circulation as money in the world would cause a sovereign to buy only half what it does now. This is, however, a very different thing from an effect produced by a merely temporary increase of purchasing power conferred on some few persons, comparatively speaking, by

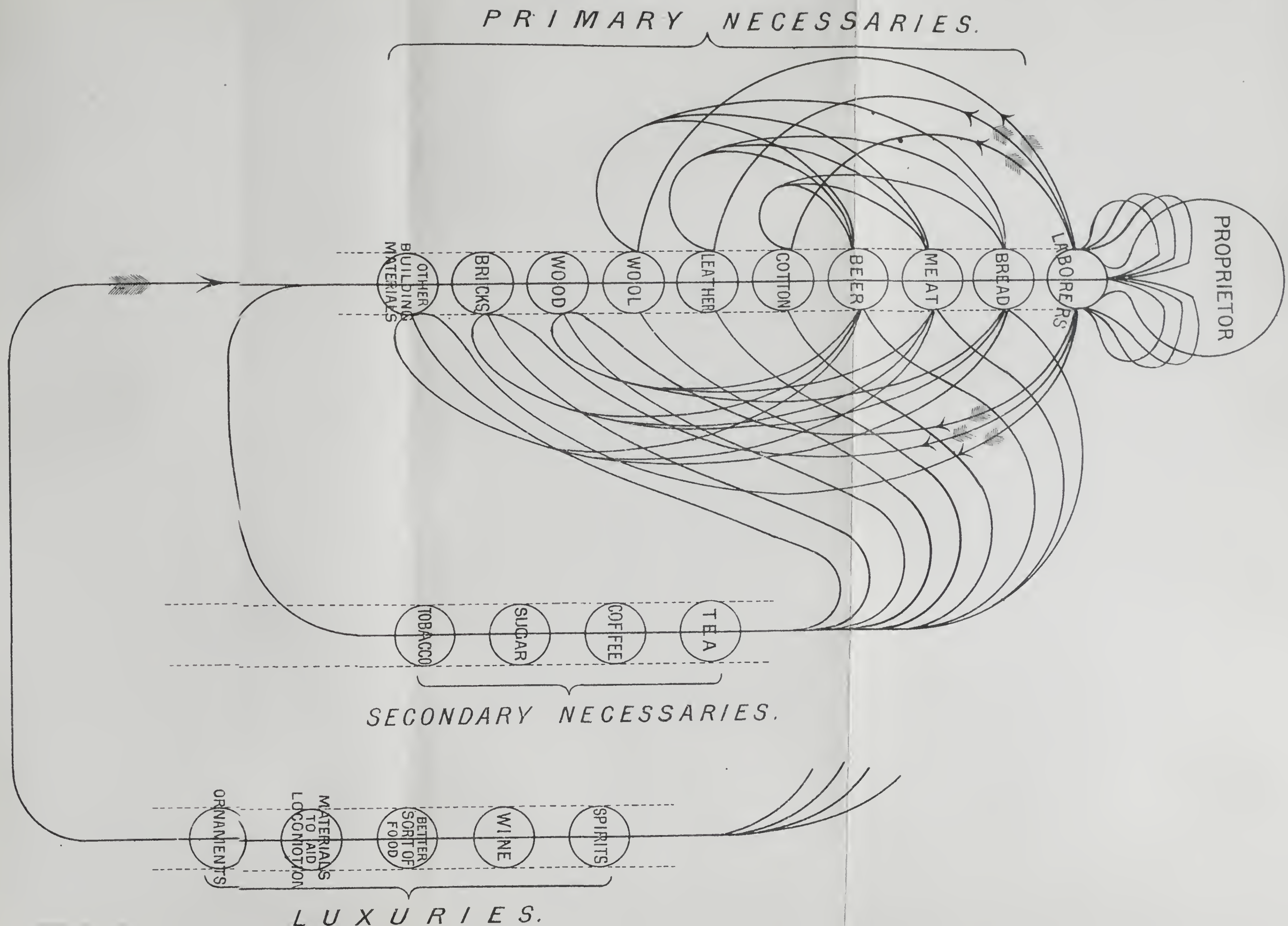
an expansion of credit based on bills of exchange or other security. The condition of the money market again may necessitate action on the part of the Bank of England, by which some of its notes would be withdrawn, thus limiting the supply of money for the purpose of raising the foreign exchanges. Such a movement may affect the prices of some articles of produce which are held on credit, and which may have been largely speculated in; but these are altogether collateral influences immaterial in the long run as compared with the effects produced by larger causes of demand and supply, taking their rise in both cases in an increased production of the fruits of the Earth.

The greater yield of the Earth enables proprietors of the soil to pay better wages, and the result is greater consumption. The way in which this spreads to others, and confers an increased purchasing power beyond the radius of the labourers may be illustrated somewhat as in the annexed diagram.

Here we see in a rough way how the whole fabric, the lower stratum of society is, as it were, irrigated by the new purchasing power. A new demand is felt all along the lines we have drawn. But the few heads which we have grouped under Primary Necessaries, spread out into subsidiary heads in all directions, in one way or another affecting the other two channels almost to the

DIAGRAM.

Showing increased consumption, and the order in which prices rise through increased Plebeian (Laborers) demand.



furthest limit. The demand which is set going by the increased consumption of the labourers will work round very soon and confer a reactionary benefit upon the proprietor who stands at the head of the diagram of Primary Necessaries if he happen to be a brewer, shipowner, builder, or iron master. This action and reaction demonstrates how increased consumption at the base of the cone, if it be great enough, and founded on production largely in excess of the increased consumption, sets demand going in one branch of business after the other. The more branches thus affected the greater the action and reaction, until the whole cone is one mass of seething prosperity.

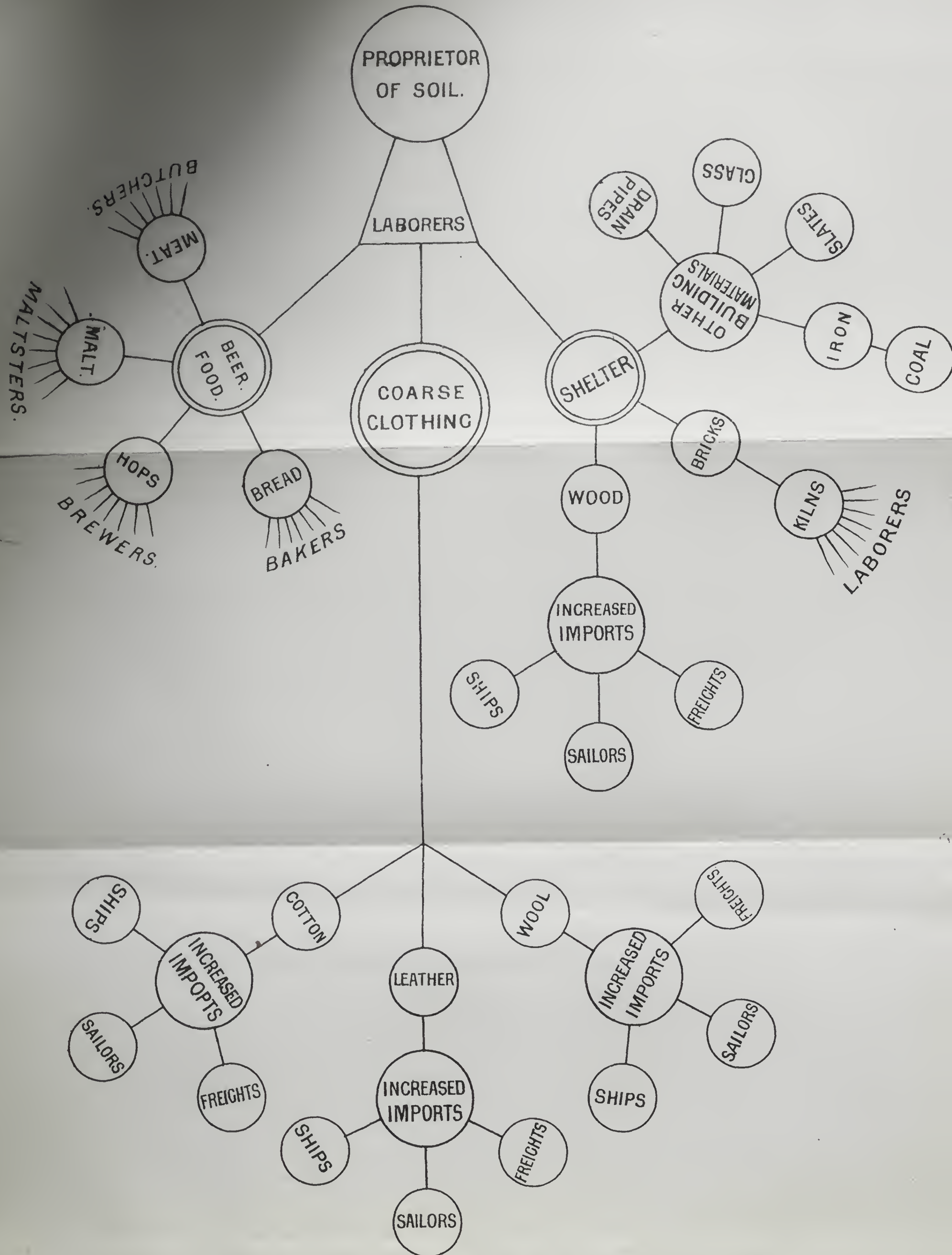
This diagram is intended in a rough way to show the course of the streams of demand as they separate from the parental source, having its origin in the earth, which is placed at the top and represents the proprietor of the soil—the primary distributor who sets the demand going. The commodities set down, as it were, for the vertebræ of the diagram, are the primary necessaries immediately affected by the increased purchasing power, of which the labourers who come between them and the proprietor require to enlarge their consumption. To show what we mean by the lines drawn, we will follow them down to the luxuries. The arrows denote primary departure. Those three lines to the left, taking their start from the labourers, who, we assume, are in receipt of in-

creased wages through a larger yield of the fruits of the earth, are intended to show how the increased consumption of one set of commodities reacts upon and raises the prices of another set. In order not to complicate unnecessarily the diagram, we assume that the increase of food is maintained at a point which prevents any rise in the three first-named articles, bread, meat, and beer; and that the increased consumption affects the articles from which clothing and shelter are made before any material rise can take place in food. It is obvious that a rise in those primary commodities which are the life blood of the energy which sets increased consumption going in the others would speedily neutralise the effects of that rise, and therefore we go over the heads of the three primary commodities. The lines are therefore carried down to cotton, leather, and wool, representing clothing on the left hand side of the diagram, and the three lines on the right hand side represent an increased demand for wood, bricks, and other building materials representing shelter. The increased consumption of these six articles, and such others as may be required within the circles of expansion, will of necessity give in each separate department of these several industries a fresh impetus to labour, which will react upon the food commodities. The lines on the left side and those on the right are therefore brought into contact with the clothing and

shelter industries, and made to react upwards, further stimulating the demand for primary commodities. To what extent the development of increased consumption even of the primary necessaries coming under the heads of clothing and shelter may be carried, depends upon the extent of the increased supply of the food. Supposing there to be a sufficient supply to bear the effects of the first reaction demand which we have indicated, we shall find an overflow in the new purchasing power which will make itself felt more or less among all those who are engaged in supplying the community with the several articles enumerated. The new force which may now be expected to develop itself will take another direction in obedience to the desires of those who find themselves better off in the world. This is indicated by the lines which converge upon the top of the column of secondary necessaries. It is clear that as the force of the impetus, imparted by the increased food supply, to all the other commodities which depend for their augmented production upon this primary ground sap is increased, so will new labourers come into the field and a still further demand for primary necessaries be created. Hence we see that the extension of the demand from primary to secondary necessaries sets up a double reaction through the demand for secondary necessaries, involving also a new demand for primary necessaries as the result of new labour being again

required to produce and bring to market the secondary necessaries. As the proprietor, speaking generally, owns the land and has his capital invested in the machinery which produces and brings these articles to market, he will feel the benefit one after the other of these several reactions, as he may be said to be the biggest producer of all, and consequently in the position to reap the most advantage from the widest extension of the increased consumption of everything. The same remarks which we have applied to the development of demand from the primary to the secondary necessaries apply to the luxuries, with perhaps the qualification that the demand for the last named, as the result of increased purchasing power, will probably not be so general as for secondary necessaries. The habits of a nation will guide the people in such a matter. In some countries savings are preferred to indulgence in luxuries, while in others to obtain as large a share of creature comforts as can be consumed by a single being in a short lifetime seems to be the only conceivable goal which is worth striving for. Although consumption in such a case will be largely increased, it is scarcely necessary to say that consumption of the kind which is not based in a due proportion upon reproduction is, for the most part, a waste not only of what is consumed, but of the energies of the consumer.

With modifications arising out of the different



PRIMARY NECESSARIES.

tastes and habits of the other classes of society, the diagram constructed for primary necessaries will serve to demonstrate equally well the action and reaction of the increased purchasing power in the Bourgeoise and Patrician channels, as it is exercised by those two higher strata of the community. There will of necessity be inequalities in the degrees in which prices will rise as the result of these movements, the difference in each case being regulated by the circumstances with which we are all more or less familiar. In a time of general prosperity, for instance, growers of some commodities will have seen more clearly than others a coming increase in the demand, and will be in a position to profit by the better demand, at the same time keeping prices from reaching very high figures by being able to meet the current requirements. In other cases, demand will far exceed the supply and up will go prices, while in some instances increased cost of production will play its part in affecting the market quotations. Such influences as these are simply infinite, and on this account it is impossible to foretel the course of any market for certain. The conclusions, in fact, at which we endeavour to arrive must be more or less inexact as a result of the uncertainty of the measure of the details from which we have to generalise.

So far we are supposed to have followed the current of new purchasing power from its source,

the earth, right through the system or corpus of the community. Where previously stagnation reigned, and enterprise was at rest, the dormant germs of new life and energy have broken their skins and the shoots of industrial revival are seen in all directions. What we have said, however, but scratches the surface of the subject; nevertheless if the scratches are approximately accurate we are a good way on the road to an understanding of the problem of the "operation of a course of demand" with which we started this chapter. To get anything like accurate outlines in this case is analogous to having the main points and distances marked out in surveying land for example. To revert to our original three strata diagram we have now to look more particularly at the effect of *re*action, the action of demand through new purchasing power having, as we assume, been felt throughout the system or corpus of the community.

It must be evident that the degree in which reaction will be effective in continuing to carry prices up after the new purchasing power has once set them going, will depend upon the capacity of the increased yield of food products to bear a continually greater superimposed weight of increased consumption. Each development of reaction as a result of the further extension of demand for every commodity consumed upon a larger scale, makes a new call upon the food foundation, and the extent of the

rise in prices of those commodities depends obviously upon the supply of food and the other primary necessaries being large enough to prevent a rise in the price of these from neutralising the spread of reaction. If the cone of action and reaction in all other commodities save food, and the other primary necessaries is to be extended upwards, the base must be widened by corresponding additions to the food supplies. We will suppose at this point that action and reaction in the "operation of a course of demand" which has spread through the whole system, has proceeded upon sound principles, and that the community, as a whole, has been paying ready money for its purchases, or only incurring debts in advance of money to be received. The supplies of food would naturally be produced upon a larger scale by the agricultural portion of the community. If abundant yields crowned their efforts, a further stimulus would be given to the consumption of other commodities, and the manufacturing industries would soon show a prosperous development, again carrying prices up upon a solid foundation of *boná fide* demand. The extension of internal development would in the natural course of things lead to external development. The cheap food which had enabled our manufacturers to offer to home buyers superior articles of clothing and other things required for their comfort and convenience, would enable them to run the risk subsequently of com-

peting in foreign markets. Assuming them to achieve success in this wider field without still disturbing the base, a new purchasing power would be acquired, especially by those whose accumulated wealth enabled them to undertake the more extended business of supplying foreign markets with their goods. At this point the home supply of food would, at all events to some extent, be supplemented by foreign food, facilities for the importation of which would be afforded by the cheap return freights. The strongest revival of activity would naturally show itself in that branch of industry for which the cheapest raw materials could be procured, and for which the best home and foreign markets were available. The extraordinary development of the British iron industry in 1872, 3 and 4 is a remarkable case in point. Large numbers of intermediaries are called into activity as soon as any considerable movement in the great fundamental industries of a nation is observed, and the cooperation of this, as a rule, capitalless, class introduces an element which rapidly drives up prices, because their sole object is the commission they get for the business transacted, and they consequently stimulate its fictitious development to the fullest extent possible. After the stage has been passed, at which little else than sound and wholesome advance in prices is being promoted by the aid of consumers who produce as much as they consume directly or indirectly, in-

flation has set in, and prices begin to be partly further raised by fictitious purchases. For those who have followed the development of inflation it is scarcely necessary to attempt to trace minutely the undercurrents which work such mischief as this artificial stimulus exerts in all markets, and which brings about so much ruin and misery to those who blindly believe that the profits which form the froth of prosperity can be to them the beginning of a lasting income. We have examined, in another chapter, the decline of the middleman and have attempted to show how much the cost to the consumer has been increased in the past by the undue commissions paid to these intermediaries. It will have been observed that of all consumers, those who earn mere commissions are the most extravagant livers, thereby illustrating the truism that money easily come by is soon gone. When once that incubus, stagnation, has been lifted off the industries of a nation and the great credit-givers can be inspired with sufficient confidence, the progress in the advance of prices generally becomes very rapid, provided always adequate support from the food stratum is kept up to prevent the rise in wages from following too rapidly upon the advance in the price of other commodities. It is impossible for the credit-givers, *i.e.* the banks, great capitalists, bill discounters, &c., who help mere names on paper, which before were valueless, now to pass as purchasing power, to dis-

tinguish between those who are solvent and those who are insolvent purchasers. Inflation sets an infinite number of illegitimate operations going, and these multiply and form into a whirlpool of commercial dealing which is kept spinning like a heavy top so long as there is just sufficient liquid capital or active energy at disposal to whip it into fresh motion. When all is excitement, and all paper profits apparent gain, the business of stopping to attempt to find out who is in danger of being dragged under water by mismanagement or bad luck, as it is called, is too costly to be thought of. The main object is to hurry on, spreading all sail to the breeze of prosperity, and trusting, as so many do, to being clear of the great back-wash which engulphs the greedy crowd who are never satisfied, until the loss of everything demonstrates to them that they have gone too far even in their reckless speculations.

It is obvious that when prices have, by a full development of inflation, been carried to the maximum in all departments, those persons who alone are enabled by under such circumstances to join in the business at all will force the development to its utmost limits, for they know well enough that when the reaction sets in their chance of making a fortune and getting clear out with it is gone perhaps for years. To prove how the class of intermediaries, who consume vastly more than they produce, and are therefore a burden and not a benefit to society,

overreach themselves and come to grief in their extreme eagerness to "make hay while the sun shines," we will give here some figures.

The following are the failures, in the under-mentioned years, among that class of traders who may be called, strictly speaking, intermediaries, that is, those firms and individuals who are paid a commission for bringing producer and wholesale consumer together.

Wholesale Failures in the United Kingdom.

	1873	1874	1875	1876	1877
Agents, commission, yarn, &c....	177	138	75	192	227
Cotton and colonial brokers......	21	8	20	15	9
Financial agents	6	12	3	12	7
Merchants	228	208	247	216	205

The extent to which prices are raised by the expenditure of persons who are brought within the pale which constitutes them a purchasing power by that fiercer heat of active prosperity which makes new life in trade like the summer heat which fills the air with insects of ephemeral existence, may be further illustrated by showing how retail traders fail in business as soon as reaction has set in and is pursuing its destructive course like a melting avalanche which has lost its hold upon the mountain side. Activity in trade means greater celerity in making and completing bargains. When principals have reached the limit of operations which one firm

or set of persons can carry through, they naturally, in preference to allowing business to go past them delegate to others what they have not time to do themselves, paying the agent a commission for his time and trouble. Brisk trade brings swarms of these agents into existence. Of over one thousand commission merchants who started in business in 1876, in London, barely a third remained standing at the year's end. Why so large a proportion failed in that particular year is accounted for by the fact that during the five or six previous years there had been an extraordinary development of business, mostly, however, of an unsound nature, in 1874 and 1875, which at the same time that it was largely fostered by commission merchants and agents, was likewise the cause of increasing their numbers. To understand what an effect is produced upon prices by such additions to the consuming power of a community, it is only necessary to realise to what an extent each new agent sets a new purchasing power going. Each one hires an office, one or more clerks, travels by a railway, cab, or omnibus, eats at a restaurant, goes to the theatre, patronises shops of all kinds, subscribes to a club of various newspapers, keeps a horse, has a house out of town, buys new furniture and pictures, hires servants, lays out a garden, fits up stables, gives entertainments with costly wines, fruits and cigars, and buys handsome silks and velvets for his wife, besides new clothes

for himself and children, travels abroad and brings home ornaments of all kinds. Each pound that he earns as commission passes from his hands to give new purchasing power to every hand it touches, and the channels in which new life is thus awakened and by which a fresh stimulus is imparted to industry are absolutely endless. If each pound were the produce of so much of the man's labour with the spade in his garden, and a sixty or forty, or even twenty-fold yield of what he planted, his efforts must be pronounced good; but in investigating the difference between the expenditure in the way we have described of ordinary commissions, and of that of the yield of the spade in the garden, we come upon the mischief which is wrought by the parasitical incubus of commission agents upon the community. Our main point with respect to this particular class of business is, that the commissions are not legitimately earned, nor are they, except to a small extent, the produce of legitimate labour; and that the expenditure which is incurred by this class of agents, is therefore the exercise of a fictitious purchasing power, and, to a very large extent, a dead loss to the community. We maintain that a commission agent is, for the most part, a superfluity, and that his own purchasing power, and all the purchasing power which he sets going, produces little else than unprofitable inflation. When business has arrived at a point of activity which necessitates his intervention it should

be stopped if the entry into a vicious circle is to be prevented. Some persons may think this statement should be qualified, perhaps rightly. If business can legitimately expand by the aid of commission agents, their participation may be beneficial; but what we contend for is, that their participation in the expansion of business is purchased at so great an ultimate sacrifice, and brings with it the necessity of undoing so much of what their energies help to accomplish, that extreme expansion had better stop at the point where fresh levies of these intermediaries, so to speak, become necessary to carry on the work. The danger lies perhaps more in the status which overflowing prosperity gives to this class which bursts into commercial being through the heat which the friction of culminating prosperity generates. At such a point in a country's progress the introduction of new middlemen is something like applying more grease to the wheels and machinery of a locomotive as the speed increases, but with the important difference that immediately the speed begins to decline the extra oil is at once dispensed with. In the analagous case of the employment of more middlemen in commerce, we have the disadvantage of these new born assistants struggling by every means in their power to establish themselves permanently. If this reasoning could be followed out by the aid of facts and transactions—step by step —it would be found that the supposed prosperous

advance of a nation under the influence of this class is a delusion. The losses sustained through the unwholesome activity infused into trade by commission agents, are, in the long run, greater than the profits derived from their intervention. Collie, for example, was encouraged by the London banks and bill-brokers to the full limit to which a clever man could force his credit by all the cunning artifice and dodging which a long career had made him master of, and how did that end? He had smitten hip and thigh not hundreds, but thousands of persons before his tricks were at last discovered. Every shareholder in the banks which lost by Collie's collapse, lost also; and when it is said that probably nearer two than one million of hard cash was swept from the pockets of their owners, we are within the mark. Some one may retort; but the banks who made their profits out of Collie's swindling operations deserved to be heavily hit by his fall! Perhaps they did. That is another matter. To prove to what an extent the recoil of a commercial reaction is felt among the smaller tradespeople, of whom a statistical record is kept, we will give some figures of the retail failures in the United Kingdom during the five years from 1873 to 1877 inclusive.

Accountants	40
Actors, artists, &c.	16
Aërated waters, ginger-beer, &c.	8
Auctioneers, house agents, surveyors	112
Bakers	183

Blacksmiths	52
Boat-builders, mast-makers	21
Brewers, common	22
Brick-makers	25
Brush and basket-makers...	17
Builders, architects, &c.	618
Butchers	326
Cab-drivers, carters, &c.	22
Cab, omnibus proprietors, livery stable-keepers ...	61
Cabinet-makers, upholsterers, furniture, &c., makers .	157
Carpenters, joiners	147
Carriage builders	57
Carriers, cartowners	22
Carvers, gilders	15
Cattle and horse dealers	68
Chymists, druggists	76
Clerks	119
Clerks in holy orders	36
Coal-dealers	68
Coffee and eating house keepers	16
Confectioners	74
Coopers...	10
Corkcutters	3
Cornchandlers, hay and straw dealers	51
Cowkeepers, dairymen	42
Drapers, hosiers, &c.	492
Dyers and cleaners	7
Engineers in Navy and officers in Army and Navy (active and retired)	28
Farm bailiffs, gamekeepers	8
Farmers	477
Fishing-smack owners	15
Fishmongers, poulterers	106
Furniture dealers, brokers	84
Gardeners, market gardeners	30
General dealers, curiosities	131
Glass and earthenware dealers	45
Greengrocers, fruiterers	120
Grocers...	1,032
Hairdressers, perfumers	42
Hatters...	41
Ironmongers, japanners, tinmen	155
Jewellers, watchmakers	124
Journalists	2

Labourers, bricklayers, slaters	65
Lathrenders	5
Leather dealers	16
Lime burners	6
Lodginghouse-keepers	31
Looking-glass makers, picture frames	6
Marine store dealers	13
Mariners	14
Masons	55
Mattrass makers	8
Millers and corn dealers	36
Milliners, artificial florists, &c.	57
Miners, colliers	34
Musicsellers and publishers	15
Musical instrument makers and dealers	21
Newspaper proprietors	3
Nurserymen, florists	20
Oilmen	27
Opticians	6
Organists, professors of music	8
Pawnbrokers	15
Photographers	15
Plumbers, painters, gasfitters	231
Potato salesmen	17
Potters	5
Printers, stationers, engravers, &c.	143
Provision dealers, cheesemongers	131
Publicans	819
Saddlers, harness makers	67
Schoolmasters	57
Sewing-machine dealers	21
Shipwrights	10
Shoe and boot makers and dealers	303
Solicitors	34
Stockbrokers, jobbers, &c.	23
Surgeons, physicians, dentists	62
Tailors	348
Timber dealers and sawyers	20
Tobacconists	68
Toy and fancy dealers	28
Tradesmen assistants	100
Travellers	51
Turners	7
Undertakers	5

Wheelwrights	39
Yeast dealers	6
Miscellaneous	175
Private persons	311
Total	8850

These figures tell a tale of falling markets and curtailment of purchasing power among the masses whose meaning reaches far beyond what is implied by the mere figures. If 326 butchers and 183 bakers, 618 builders, 492 drapers, 1032 grocers, 819 publicans, 231 plumbers, painters, and gasfitters, 303 boot and shoe dealers, and 348 tailors have failed during those five years, how many in all trades it may be asked have lost money, curtailed their consumption of the things they require in their business, diminished their own personal purchasing power, discharged servants, and given less to do in an infinite number of ways to other people who are the fetchers and carriers for the community? And, furthermore, how many of those had much better for themselves and those depending upon them, have remained in subordinate positions, content to exercise a smaller purchasing power until a more solid foundation presented itself for a start on their own account. We once heard a man say what hundreds of others have looked, but were ashamed to say, "I have spoilt my career because I could not bide my time."

CHAPTER IX.

THE INFLUENCE OF JOINT-STOCK LIMITED LIABILITY COMPANIES UPON PRODUCTION.

This is a subject somewhat difficult to deal with, because in treating it deductively the domain of speculation must be entered. In other words, we know of effects and can mark them out without being able in all cases accurately to define the causes. The system of limited liability, first introduced in 1856, is in its way like the practical application of steam to locomotive and to stationary machinery. It is not the creation of a new energy by evolving it from the co-operation of controlled fire and steam as is the case with the steam engine, but it is the utilisation or reclamation of individual, physical, and mental energies which previously lay dormant or lacked the necessary stimulus. The invention of the system of limited liability was the creation of a method of co-operation which finds its appropriate description in the phrase "unity is strength." Some fifteen years experience of the working of this system has shown us a vast development of energy of one sort, and a diminished development of that of another, and it is a very

interesting study to try and guage the results, and see if we can discover what have been some of the more important of these, chiefly as regards production. We will divide the subjects under the following heads:

1. Increased production of commodities.
2. Inferiority of the produce.
3. Demoralization of the producers.
4. Undue extension of purchasing power.
5. Loss of manufacturing credit abroad.
6. Injury to trade by undue competition.
7. Inflation of credit.
8. Abnormal rise in prices.
9. Crisis and reaction.

1. *Increased production of commodities.*

The first, and, to our minds, primary charge to be brought against the system of limited liability companies is, that they have been the means of largely increasing the production in all branches of industry, of commodities which were not at the time wanted. The result of such a system is waste, not only of the commodity but of the means of production. With larger production arises the necessity of keener competition in the markets of the world. To drive prices down beyond a certain limit is to extinguish the margin of profit, consequently cheating or adulteration is resorted to by those who have established themselves as producers, as the

only means by which they can avert ejection from the field of competition. In this country new acts have been passed of late years by the legislature for the punishment of such offenders, the practice of adulteration having threatened to assume very serious dimensions.

The most notorious case of the abuse of the joint-stock system is to be found in the commercial history of the United States, in the decade previous to the crisis of 1873. The history of the world, perhaps, presents no such instance of a nation literally preying upon itself, as is shown by the revelations which have been made during the past few years, both as regards the delinquencies in the public service, and the corruption and swindling which have characterised the development of private enterprise. We are not prepared to say that the people of the United States are individually any worse than other nations, but the robbing of one's neighbour under the guise of benefiting the community in the greatest of republics, has so far had more relentless cold-blooded deliberation about it than has happily been seen upon the same scale anywhere else. This is no doubt to some extent attributable to the fact, that the inhabitants of the United States are a composition of other nationalities, having in it a large infusion of the adventurer type from all quarters, whose only object is to make a fortune somehow or anyhow, and to get back home

with it. Instead of the competition being of a wholesome kind and calculated to benefit all concerned, the results which we witnessed in 1877, of the collapse of commercial affairs in 1873, prove that each was trying to benefit himself at the expense of destruction to the other. As a consequence of this most injurious tendency, a large portion of the inhabitants of the naturally richest, fairest, and most productive land on the face of the earth, were at the period referred to and subsequently to it steeped in comparative misery. Not only had the canker of corruption eaten deeply into the very vitals of private enterprise, and destroyed the incomes of thousands of helpless people who thought they were provided for for life, but its "effacing fingers" left their mark on the nation in the form of cliques, recruited from the plutocrat ranks who ventured even to coquette with the suggestion that the foreign creditor should have his bonds repaid in a metal having an inferior purchasing power to that in which he subscribed. Inferior workmanship is sure, sooner or later, to be the result of the demoralisation which is bred of inordinate gain, and the traces of this have been lurking near the seat of government itself. Contrast the management of the United States currency and national finances under similar circumstances with that of France.

The following history of joint-stock company misfortunes from their Philadelphia correspondent

appeared in the 'Times,' of the 23rd January, 1878, overshadowing everything of the kind in any other country.

"The year 1877 will be chiefly remembered in the United States for its widespread commercial and joint-stock company misfortunes. The frauds, shrinkage, and errors of previous years have resulted in a series of failures so numerous and so sweeping as to arrest public attention almost to the exclusion of other matters. Banks, savings institutions, trust companies, insurance companies, and other joint-stock enterprises, have failed by the scores, and there has been a general weeding-out of infirm and rotten corporations, clearing up the financial atmosphere and removing what may be termed the *débris* of the panic of 1873. We are much the better off for it, though the process has been painful and humiliating; and the retirement from business of several hundred weak corporations has left the field to the stronger ones, for the benefit alike of the public and the solvent houses. The misfortune has been felt to fully as great an extent among the railways as elsewhere, and the Chicago 'Railway Age' estimates that during the past two years one-tenth of the entire railway system of the United States has been sold under foreclosure, while proceedings are pending in more than as much more.

"During 1876 and 1877 there were sold under foreclosure, according to the 'Railway Age's' figures, 84 railways operating 7,721 miles of road, and representing capital and debts amounting to $416,984,400. These railways have by these proceedings mostly wiped out their share capital, and have in that and other ways scaled down their invested values about 50 per cent. At the same time there have during 1877 been foreclosure proceedings begun in 44 more railways, while sales have been ordered in 16 others. These 60 railways represent $575,000,000 more invested capital. These figures are enormous, but they show the overshadowing importance of our joint-stock company misfortunes compared with other events transpiring in the United States during the year. Very many of these millions are British capital.

"The details of the figures given by the 'Railway Age' are as complete as the lamentable lack of any official system of railway statistics in the United States will permit; and they are, in fact, the

best obtainable under the circumstances. The list of American railways sold under foreclosure during 1877 is the following:

Name of road.	Miles.	Bonds and debt.	Capital stock.
Arkansas Central (N. G.)	48	$1,500,000	$1,000,000
Alabama and Chattanooga	296	10,400,000	2,700,000
Buffalo and Jamestown	67	1,300,000	1,510,000
Cincinnati and Terre Haute*	40	500,000	1,000,000
Clover Hill*	21	150,000	—
Chicago, Danville, and Vincennes	168	5,600,000	2,693,000
Chicago and Illinois Southern*	33	750,000	300,000
Central of Iowa	189	5,192,000	3,500,000
Cayuga, second sale	38	800,000	300,000
Detroit and Eel River and Illinois	93	2.564,000	1,100,000
Evansville, O. and N.†	35	1,600,000	500,000
Great Southern‡	—	100,000	—
Georgia Western‡	—	200,000	—
Gulf. Western Texas and Pacific	80	1,386,000	1,054,600
Harlem Extension	55	2,000,000	2,000,000
Hannibal and Naples	52	900,000	457,000
Jersey City and Albany	24	700,000	254,000
Kent County	31	600,000	—
Louisville, New Albany, and St. Louis (Illinois Division)	29	1,000,000	1,800,000
Lake Erie and Louisville	88	890,000	1,115,000
Lexington and St. Louis†	55	900,000	500,000
Lake Superior and Mississippi	155	5,770,000	5,125,000
Lake Erie, Evansville, and South-West	20	500,000	1,500,000
Lakeview and Colamer	8	56,000	69,000
Louisville, Cincinnati, and Lexington	175	6,800,000	2,991,000
Memphis and Little Rock	131	2,300,000	5,000,000
Memphis Branch (N. G.)	5	50,000	—
Mississippi Central	342	12,500,000	5,436,000
Mansfield, Coldwater, and Lake Michigan	44	4,460,000	500,000
Maryland and Delaware	54	1,000,000	6,500,000
Marietta, Pittsburg, & Cleveland	103	3,500,000	1,350,000
New Orleans, Jackson, and Great Northern	569	23,200,000	12,159,000
New-Haven and Red Stone (partly built)*	10	50,000	—
Pittsburg and Northern (unbuilt)	—	100,000	—

Name of road.	Miles.	Bonds and debt.	Capital stock.
Plymouth, Kankakee, and Pacific‡	—	378,200	324,100
Paris and Decatur	73	1,200,000	1,600,000
Peoria and Rock Island	91	1,700,000	2,000,000
Philadelphia and Chester County‡	—	21,500	40,000
Paducah and Memphis	115	1,541,000	3,000,000
Rochester, Nunda, and Pennsylvania	20	171,000	625,000
Southern Minnesota	167	9,000,000	3,825,000
St. Joseph and Topeka	13	350,000	150,000
St. Louis, Lawrence and Western	93	1,664,000	1,520,000
Schuylerville and Upper Hudson (not built)	—	65,000	—
Syracuse and Chenango	43	1,150,000	729,000
Springfield, Athol, and North-Eastern	48	717,000	815,000
South Mountain Iron	17	350,000	—
Texas Western*	41	300,000	200,000
Vicksburg and Nashville‡	—	50,000	200,000
Wilmington and Seaside*	3	10,000	—
Wilmington and Western	19	600,000	250,000
Wallkill Valley	33	1,200,000	754,000
Wheeling, Pittsburg, and Baltimore	32	103,000	500,000
Worcester and Somerset	9	50,000	100,000
Total, 54 roads	3,875	119,938,700	79,045,700

Total bonds, debt, and stock (capital invested), $198,984,400.

* Estimated. † Partly estimated. ‡ Partly graded.

In addition to the above there are 16 railways where the foreclosure proceedings have not been completed, but have progressed to the point where the Courts have ordered a sale, but the roads have not yet been actually put up at auction. These are the following:

Name of road.	Miles.	Bonds and debt.	Capital stock.
Ashburnham	3	$17,000	$100,000
Chicago and Lake Huron*	66	2,000,000	2,000,000
Chesapeake and Ohio	428	30,940,000	15,899,000
Detroit, Eel River, and Illinois	94	2,624,000	1,100,000
Erie	526	56,000,000	86,500,000
Indianopolis, Bloomington, and Western	332	12,000,000	7,611,000

Name of road.	Miles.	Bonds and debt.	Capital stock.
Montgomery and Eufaula ...	81	... 2,500,000	... 1,149,400
Mobile and Ohio	528	... 14,555,900	... 5,320,000
Memphis, Carthage, and North-Western (in Kansas)*... ...	3	... 45,000	... 60,000
North and South of Georgia (N. G.)	23	... 301,500	... 402,500
New Jersey Southern	175	... 5,300,000	... 5,000,000
Ohio and Kentucky Coal and Iron*	30	... 500,000	... 500,000
Selma and Gulf	40	... 500,000	... 1,000,000
St. Louis, Keosauqua, and St. Paul*	5	... 50,000	... 100,000
Springfield and North-Western...	47	... 1,000,000	... 180,000
Wilmington and Reading (branch)	7	... 500,000	... —
Total, 16 roads ...	2,388	...128,833,400	...126,921,900

Total bonds, stock, and debt (capital invested), $255,755,300.

* Estimated.

Then there are, besides, 44 other railways where foreclosure proceedings have begun during 1877, but have not yet been completed, but where receivers have generally been appointed:

Name of road.	Miles.	Bonds and debt.	Capital stock.
Atlantic and Gulf	349	... $5,300,000	... $3,700,000
Atlantic and North Carolina ...	95	... 200,000	... 1,600,000
Anderson, Lebanon, and St. Louis*	20	... 300,000	... 1,000,000
Cincinnati, Rockport, and South-Western	24	... 69,000	... 383,000
Chicago, Saginaw, and Canada...	20	... 430,000	... 220,000
Cairo and St. Louis (N. G.) ...	146	... 3,200,000	... 5,000,000
Covington, Columbus, and Black Hills*	26	... 500,000	... 500,000
Central of New Jersey	343	... 24,000,000	... 20,500,000
Cincinnati, Sandusky, and Cleveland	189	... 2,600,000	... 4,500,000
Chicago and Southern	21	... 320,000	... 500
Chicago and Paducah	156	... 2,824,800	... 2,178,500
Chicago, Pekin, and South-Western	88	... 1,068,090	... 826,500
Chicago, Millington, and Western	10	... 59,000	... 66,800
Chicago and Iowa	80	... 1,750,000	... 1,328,000
Cleveland and Newburg... ...	$3\frac{1}{2}$	... 42,000	... 44,740
Chicago and South-Western (Atchison branch)*	30	... 1,000,000	... 700,000

Name of road.	Miles.	Bonds and debt.	Capital stock.
Denver and Rio Grande...	300	6,140,500	7,000,000
Danville, Hazelton, and Wilkes-barre	43	2,847,000	658,500
Eastern of New Hampshire	17	—	492,000
Fond du Lac, Amboy and Peoria	30	250,000	250,000
Hannibal and St. Joseph	300	9,000,000	14,255,000
Lafayette, Muncie, and Bloomington	115	1,500,000	500.000
Long Island	95	2,000,000	3,260,000
Missisquoi and Clyde Rivers*	30	750,000	500,000
Montclair and Greenwood Lake	55	2,500,000	3,000,000
Manhattan and North-Western (graded) ...	—	250,000	—
Marietta and Cincinnati...	282	18,818,000	14,000,000
Ohio and Mississippi	619	12,852,000	24,000,000
Ohio Central	36	269,500	1,123,000
Portland and Ogdensburg (Maine)	91	2,282,500	1,052,000
Portland and Ogdensburg (Vermont Division) ...	121	2,300,000	1,200,000
Portland and Rochester...	53	1,500,000	636,000
Petersburg...	82	850,000	1,324,000
Painesville and Youngstown (N. G.)	60	1,700,000	2,000,000
Pennsylvania Petroleum*	4	150,000	—
Portsmouth, Great Fall, and Conway	71	1,000,000	1,150,000
St. Louis, Iron Mountain, and Southern	685	32,600,000	21,500,000
Selinsgrove and North Branch†	—	100,000	—
Southern of Long Island	52	3,286,000	291,500
Savannah and Memphis ...	60	2,467,500	2,321,000
Upson County (Georgia)...	17	—	220,000
Washington and Ohio	53	718,000	1,927,000
West Wisconsin ...	188	9,000,000	9,000,000
Wisconsin Central	450	5,800,000	1,900,000
Total, 44 roads...	5,409	164,573,890	156,103,040

Total bonds, debt, and stock (capital invested), $320,681,930.

* Estimated. † Unfinished, estimated.

"These figures are appalling, but it must be remembered that America is the land of stupendous things, and that her misfortunes

are constructed on the colossal scale which measures everything else. These railways, representing one-fifth of our railway system, are passing through the process of scaling down to real values which has been affecting everything in this country, and has cut down Fifth-Avenue incomes as inexorably as it has eaten out savings-bank assets or closed up hollow-hearted trust and insurance companies. To reduce, retrench, economise, has been the universal American rule, and fate has forced the scaling-down process where the people have not been fore-handed enough to prepare for and accept it. Whatever number of millions may have been the face value of assets a few years ago, a very large percentage of reduction has had to be universally accepted in estimating actual worth now. Whether it be in lands or houses, shares or bonds, the scaling has been almost inexorable. We think we have gone through the worst of it, and have at length got down to the basis that is expressively termed "hard pan," but every man has had to take his share, and for a good while past the only happy Americans have been those who owned nothing, for they have had nothing to lose."

In our own country the number of joint-stock companies which have been started and wound up after a career damaging to themselves and to the public is legion, while hundreds remain to bear witness to the devastation caused by them in the mercantile and manufacturing world, among the firms which already previous to the passing of the limited liability acts were menaced with severer competition, both at home and abroad than they had ever experienced before. To understand fully the effect of the creation of these undertakings, we must work through the ten heads we have set down. Whatever perishable commodity is produced beyond the requirements of consumption, must to a large extent be wasted. There is, therefore, waste of the pro-

duce, waste of the energies devoted to its production both directly and indirectly, as those persons who are engaged in producing what is wasted are taken from occupations in which they would be doing more good for themselves and for others, and must be paid wages which also are a waste and misapplication of money. In other words, a false stimulus is given to the energy of individuals who are themselves exercising, and are also giving to others, a false purchasing power. There has been a transition from small producers to large producers by the introduction of joint-stock companies, and we know that it is more difficult for large concerns to suspend their operations than it is for small ones. What is the result? Production is continued at a loss, as the least of two evils. A small loss on production is preferred to the larger one, incurred by machinery standing idle. Besides there is always the mortification of seeing the business drift into other hands. When a comparatively small firm finds they are losing money, they can easily detach themselves and be content to do absolutely nothing when trade is bad. The ramifications of a large concern are so extensive that stoppage is tantamount to destruction, as the cost of reorganising what must be left to rust, decay, or be dispersed when production has ceased, will consume more fresh capital than former accumulations will allow. Moreover, we know the difficulty of getting

capital subscribed for enterprises, which from whatever reasons have been obliged to suspend their operations. In these circumstances the managers, especially of manufacturing undertakings, keep their works going at a loss, and live on hope until there is nothing for it but to wind up.

We may congratulate ourselves that we are so far unable to rival the business community of the United States as regards the extent of the loss they have sustained through the abuse of the system of joint-stock companies. We have nothing in our commercial history that will compare with the wholesale ruin and disaster chronicled in the letter from the Philadelphia correspondent of the 'Times,' but we have, nevertheless, a goodly array of joint-stock enterprises which have been started in this country with little benefit except to those who promoted them, and those whose business received an impetus by the fictitious increase of purchasing power afforded generally by the misapplication of the capital subscribed. The two following tables, which we take from the report of the Select Committee of the House of Commons, appointed to inquire into, and report on the operations of the Companies Acts of 1862 and 1867, and to whom the Companies Acts Amendment Bill (No. 2) was referred, will give some idea of the extent to which the various markets for commodities of all kinds, including labour, have been influenced by the misapplication of both fixed and floating capital.

Table I.—A Statement of the Number and Total Nominal Capital of the Joint-Stock Companies Registered in the United Kingdom under the Companies Act, 1862.

YEAR OF REGISTRATION.	CLASS OF COMPANY.								Total for each year.	Total Nominal Capital for each year.
	LIMITED.				UNLIMITED.					
	By Shares.		By Guarantee.		With Nominal Capital.		Without Nominal Capital.			
	Old.	New.	Old	New.	Old.	New.	Old.	New.		
1862 (30th Oct. to 31st Dec.)	5	86	1	...	64	1	8	...	165	£57,017,120
1863	12	748	...	2	13	10	3	2	790	139,988,242
1864	11	967	...	3	9	5	2	...	997	237,437,083
1865	9	992	...	10	10	8	...	5	1,034	205,391,818
1866	6	738	...	8	2	6	...	2	762	76,824,823
1867	5	450	...	5	6	11	...	2	479	31,444,982
1868	9	434	...	3	4	7	2	2	461	36,527,702
1869	4	453	...	5	7	5	...	1	475	*141,274,251
1870	6	567	...	9	4	7	1	1	595	38,252,374
1871	9	785	1	16	3	5	1	1	821	69,528,316
1872	10	1,080	...	17	3	5	...	1	1,116	133,041,395
1873	2	1,205	...	8	15	2	...	2	1,234	152,056,545
1874	9	1,192	...	11	17	5	1	6	1,241	110,540,063
1875	10	1,125	...	17	13	5	...	2	1,172	82,447,180
1876	5	948	...	45	...	2	1	62	1,063	48,144,827
1877 (1st Jan. to 31st May) †	1	458	...	10	...	...	...	5	474	30,264,136
Grand total	113	12,228	2	169	170	84	19	94	12,879	£1,590,180,857

* In this year (1869) a company, registered with £100,000,000 nominal capital, but its paid-up capital does not appear, according to the annual statement filed at this office, ever to have exceeded £200.

† This would give an average for the present year of 1137 companies, with a total nominal capital of £72,633,926.

TABLE II.—A Statement of the Nominal and Paid-up (or considered to be Paid-up) Capital of all Companies registered in England (not including Companies registered at Truro), as given in their latest Returns; distinguishing the Capital of Companies which appear to be still in existance from that of the Companies which are no longer carrying on business, and that of the Companies about which the Office has no information, but which are believed to have been mainly abortive.

YEAR OF REGISTRATION.	Companies which appear to be still in existence.		Companies no longer carrying on business.		Abortive Companies, and Companies about which the Office has no information.	
	Nominal (*a*) Capital.	Paid-up Capital.	Nominal (*a*) Capital.	Paid-up Capital.	Nominal (*a*) Capital.	Paid-up Capital.
1856	£13,838,793	£9,172,031	£15,392,488	£6,795,329	£3,681,626	£1,016,686
1857	3,867,581	3,610,764	17,623,738	5,808,515	4,908,649	293,743
1858	4,275,197	3,706,623	24,645,065	4,451,961	5,678,350	602,892
1859	5,891,380	4,624,579	6,921,294	1,570,076	2,819,654	431,329
1860	6,629,555	3,760,083	12,004,940	3,888,997	3,760,850	257,547
1861	6,742,143	2,676,437	14,786,750	2,156,590	4,800,560	1,097,813
1862 (to 1st Nov.) .	36,120,460	16,810,187	21,985,820	4,567,830	6,193,597	704,021
Total of Companies *not* registered under Companies Acts, 1862 & 1867	77,365,109	44,360,704	113,360,095	29,239,298	31,843,286	4,404,031
1862 (from 3rd Oct.)	12,934,675	3,435,875	5,711,239	1,462,229	10,365,700	108,280
1863	35,306,445	13,958,244	71,040,550	11,312,834	33,795,450	540,689
1864	56,904,615	30,821,537	48,830,354	18,776,116	143,429,310	1,831,585
1865	37,467,810	19,165,209	86,390,225	9,597,599	76,723,795	3,162,942

1866 . . .	31,220,045	18,269,781	23,502,899	5,374,798	16,668,100	741,097
1867 . . .	13,355,382	9,029,432	11,859,856	1,907,987	7,561,287	526,068
1868 . . .	10,863,011	6,175,988	11,421,205	3,818,952	11,833,429	690,360
1869 . . .	13,290,797	4,767,097	20,970,400	7,374,288	107,220,000	337,708
1870 . . .	16,468,820	10,378,749	17,892,074	4,500,802	7,943,359	799,868
1871 . . .	39,608,719	20,763,347	16,713,437	4,531,043	11,398,600	777,961
1872 . . .	65,875,698	36,225,215	32,413,486	6,248,832	27,105,350	1,003,735
1873 . . .	88,191,186	42,458,499	27,175,954	6,321,955	35,063,794	350,110
1874 . . .	69,063,581	25,675,491	16,873,625	2,164,580	17,638,396	95,817
1875 . . .	72,816,583	15,179,314	6,708,176	392,386	...	...
1876 . . .	39,577,390	5,767,297	2,235,000	148,088	...	...
1877 (to 12th June)	25,134,986	676,667	20,000	...	...	...
Total . .	£705,444,852	£307,108,446	£513,118,575	£113,171,787	£538,589,856	£15,370,251

	Nominal (*a*).	Paid up.
Total Capital of Companies existing at present time . .	£705,444,852	£307,108,446
" " which have ceased to exist .	513,118,575	113,171,787
" " which proved abortive, &c. .	538,589,856	15,370,251
Total	£1,757,153,283	£435,650,484

(*a*) The *present* nominal capital, as altered by increases or reductions since registration, is given throughout.

The totals of the nominal and of the paid up capital summarised at the foot of Table No. 2 gives more particularly what we desire to call attention to. There it is seen that at the middle of June, 1877, joint-stock companies were in existence with a paid-up capital of £307,108,446; the total capital of those which had ceased to exist amounted to £113,171,787; and of those companies which proved abortive £15,370,251. We will take those which have ceased to exist first. There were over 113,000,000 of capital raised for enterprises which only saw the light to be wound up sooner or later. This is, however, a very large movement of floating capital, which means more than is apparent on the surface. It means the raising of the value of money, and the undue extension of credit; for each company as it started would get credit, and all who had to do with it would immediately be armed with a new purchasing power, with which they would proceed to operate in the markets. It means the raising of rents, the purchase of furniture and other materials necessary to commence business, the employment of managers, clerks, and servants, the purchase in numbers, perhaps, most cases where they were wanted, of raw materials which were worked up unprofitably, thereby unduly stimulating production, and finally there was the labour and expense of winding the concerns up, a process in numbers of cases lasting for years. It may be

fairly said, therefore, that this £113,000,000 of capital was misapplied, *i. e.* withdrawn from employment in which it was conferring a solid permanent benefit upon thousands of persons, and was used unprofitably, entailing waste of material wealth causing ruin to employés who left good situations, to find themselves after a year or more with no means of supporting themselves. In addition, there would be a great disturbance in all departments of business, by the introduction of what the results proved was an unnecessary addition to the productive powers of the country. Prices, as a matter of course, would be raised fictitiously, to the loss and discomfort of all persons possessed of fixed incomes, and to the inconvenience of the wage-earning class, and all others to whom any advances in prices generally was a matter of importance.

Then we have to deal with, perhaps, a more important matter still, the effect of the operations of the companies existing at the date mentioned, which employed a capital of £307,108,446. The difficulty of dealing with the results of the operations of these new enterprises is, that we can only speculate as to the general effect produced. In the case of those which have ceased to exist we can justifiably infer that they had no *raison d'être*. In other words there was no room for them; they were working at a loss, and consequently were a burden on the community through being consumers of pre-

vious savings without even producing an equivalent. Can we then infer that they were profitable new producers, and were, therefore, a distinct gain to the nation, or that they had merely forced others out, who through lack of energy or skill were compelled to succumb before more enterprising rivals? We believe the middle conclusion is the true one, with a very substantial margin. Many concerns we know have been converted into joint-stock limited companies, but we do not know for certain that the results have been very materially better than were secured under the old organisation. If the profits were to be compared, we should be inclined to think that the joint-stock trading concerns employed more people, getting less out of each one, while the cost of working was more per head than when the business was managed by partners, each of whom was directly interested in the result. If a true comparison showed this to be the case, there would be no advantage derived from the change. But we are told that the capital was often inadequate to the extent of the business which could be done, and this has been the ground upon which nearly all conversions of businesses into joint-stock companies have been effected. In many cases no doubt it was true, but we believe the benefits to the community which have been derived from those increases of capital, has been nearly, if not quite, outweighed by the misapplication of

capital, in cases where no more could be profitably employed. The other points we shall touch upon seriatim in examining the heads we have already marked out.

Production has been stimulated by larger combinations of labourers in modern times to a great extent by the aid of joint-stock banks. The Indian banks are a remarkable case in point. The Indian merchant has been practically run off the road, to use a familiar expression, by the Indian banks. How has this come about? The operations of a bank in such a case are mainly directed towards securing the commission on the transaction. The bank is only interested in the success of the individual man who sells it the bill which he draws for the exported goods, because he may be a permanent source of revenue to the institution. The bank manager reasons, however, that if this particular man fails he has command of the goods, as the bills he buys are nearly always what are called document bills. Being therefore, comparatively speaking, indifferent to the success of individuals, he grants pecuniary facilities to any and all who can give him document bills. On this joint-stock system the business will be likely to be developed less cautiously than when there were no banks to supply capital, and the merchant was virtually the buyer of his own bill and worked with his own capital. In these times any one of moderate respectability who can get together enough money

to work his margins may send from the East to Europe any quantity of goods, so long as there is a market and a profit on the business; in fact, he very often continues to export when there is no longer any market for the goods, and there must inevitably be a loss on the business. The bank, of course, will not continue to advance even the two thirds or three quarters of the value, as the case may be, when it becomes aware of there being any difficulty to realise. What we wish to show is that the bank will continue to find the money for carrying on a losing trade after the merchant would have ceased to do so, being less interested in the results of the trading itself than the merchant whose capital was engaged in it. If we are successful in establishing this fact we think we have demonstated that the substitution of joint-stock banks, in co-operation with commission merchants who work for a small commission, and who are, comparatively speaking, indifferent to the upholding of the character of the trade, has been the means of causing at times large over-production of commodities, and thereby unduly extending purchasing power with the result of a deeper and more prolonged reaction than was experienced formerly.

We have, therefore, not only the result of the work of joint-stock combinations in stimulating production so soon as a reviving demand for any of the large commodities arises, but we have by the intro-

duction of the joint-stock system larger combinations of capital in the shape of banks behind these joint-stock combinations of labourers. With this double leverage we must have new and greater effects produced upon the great markets of the world than have been known before, and to gauge accurately the loss or gain to the consumer we must ascertain how far genuine competition is maintained, a part of the discussion we have pursued elsewhere. The world seems undoubtedly to be better off than it used to be, as a whole, as regards the civilised nations, and a degree of comfort is enjoyed at present beyond anything that was even hoped for by our forefathers of fifty years ago; but what we want to ascertain is, is the basis upon which this new prosperity has been reared sound or not? Are our new economic principles right or wrong? The failure of two large East India firms—Smith, Fleming and Co., and Heugh, Balfour and Co., while these pages were passing through the press—are further evidence in favour of the conclusions at which we arrive. In both cases the houses had for years received undue support from the banks.

2. *Inferiority of the produce.*

Some producers keep their works going in the face of severe competition and still produce the commodity up to the right standard of quality, although

selling it at a lower price. Others, in order to make up for the lower price, weight the Manchester goods, for example, with china clay and the silks with preparations of iron. Joint-stock enterprise gives to labour a greater power over capital for a time, by reason of the confidence which is given by organised combinations of workers. The more modern system in many respects of doing the world's work enables these organisations to hide financial unsoundness for longer periods than when floating capital was operated by a larger number of small firms. We have no means of proving it, but we venture to assert that there is no joint-stock bank in London at this time (1878) that could wind up at once and pay 20/ in the £. A large number of the insurance offices could not probably pay 15/, and there are joint-stock concerns in the country by the thousand which simply transfer indebtedness which they cannot liquidate from one creditor to another, as the only remaining means of successfully wrestling with insolvency. There is no means of proving this, because the skeleton in the cupboard is under lock and key; but we maintain, nevertheless, that the picture is not overcoloured, and this being so, what is the temptation to which manufacturing joint-stock companies are exposed which year after year are wedged closer and closer between rival concerns, continually appearing with some novel device for producing more cheaply and more rapidly? The

temptation is to take the profit, which they cannot gain legitimately, by illegitimate means. In other words, a pretence is made to give the same article, but it is in reality inferior. The same price, and even higher prices, continue to be paid for articles which intrinsically are not worth half what used to be given for them when something approaching their real worth was charged. It would seem to appear from this that instead of joint-stock enterprise, and the modern improvements in machinery, enabling producers to supply the public with a better article at a relatively cheaper price than formerly, that in reality we pay more money for a worse article. It would likewise appear that that Juggernaut, fashion, is in league with these producers of ephemeral wares ; for no sooner is an article, more particularly of lady's clothing, turned out of the milliner's shop, than it has to be cast aside for something else more in harmony with the still newer designs from that brilliant haunt of the genii of design, Paris. As a Spitalfield silk-weaver once said to us, "Why, even the ladies at the court will not buy expensive silks. Where they formerly had one good silk dress, they now have six bad ones." If the six inferior dresses are worth but little more than the one superior, which is what we understand is the case, we have, in this department, at least, evidence enough to prove the inferiority of the produce in these modern times, and the disastrous effects which such a state

of things is bringing about in all fields of production where the necessity exists for meeting a demand for inferior fabrics. The infusion into the ranks of state-craft of men who have larger sympathies for those beneath them has led to legislation having for its object greater happiness for those who are willing to do a good day's work in the world. The result is that there are fewer cottages and fewer palaces than there used to be. There is a larger middle to society; a smaller proportionate accumulation of wealth and power at the top, and less poverty and suffering at the bottom. In the United States there are no palaces, as we understand the term, and those who live in what we also understand by the term cottage, would in former times have been nomads, with the vault of heaven for their roof, and the damp earth for their flooring. If we go into Asiatic cities, like Moscow, we shall find that it is pretty nearly all palace as composing the centre of a system, with innumerable satellites forming the patrician portion of society, while the rest of the town is nothing more than a squalid frame to a picture which represents the ancient royal residence. The good things of life are monopolised by the nobles in these centres of cankering despotism, while the people who do all the work, and are the pillars upon which the state rests, are exiled to Siberia if they venture to remonstrate against the oppression which grinds them down to a level with the brutes.

Happily western civilisation has, for the most part, emerged from that darkness, and the consequence is a desire for equality, a feature of modern times which has made marked strides of late years. But this progression has its drawback. The universal compensation is sure to show itself somewhere or other. Instead, however, of the demand for things of luxury exercising a levelling-up effect, it seems to be the contrary. Poorer people are contented with inferior fabrics provided they look anything like what they are intended to imitate. The comparatively rich also prefer the ostentation of closely following the changes of fashion, at the sacrifice of the changing devices in which they appear before the public being presented to the eye in materials of the slenderest durability.

Inferiority of the produce is, no doubt, as regards many articles of commerce, due to the difficulty in many cases, and the impossibility in others of supplying the demand. Populations increase while certain commodities become every year rarer. Seal skin and the furs which come from the territory of the Hudson's Bay Company may be cited as more and more difficult to supply because the animals are destroyed at a rate which must result before long in their becoming extinct, if it is not kept within limits. Close imitations come to be worn as a consequence, and manufacturers are encouraged to produce an article so nearly like the reality, that at

last it comes to be entirely superseded. Although this additional evidence supports our argument it is only collateral, and cannot be attributed to the influence of joint-stock companies on production, except in so far as these larger combinations of labour afford greater facilities for meeting any new want which may be developed.

3. *Demoralisation of the producers.*

The saying, that there is a fitness in things applies to all departments of life. It is seldom that the speed of any part of a machine can be unduly accelerated without damaging some other part; and expansion in trade, which is confined continuously to one or more departments only, and is not general, is, as a rule, an unwholesome movement producing little benefit in the end. Of this we have had on several occasions examples. Associated with an excessive development of the iron trade, we have the demoralisation of the coal winners, whose glimpse of Elysium begins with champagne and cottage pianos, and ends with the misery involved in a strike. Some months of exceptionally high wages are thus proved to be of no benefit to this class of labourer, and if of no benefit to him, it can be of little benefit to any one else. Those who produce the extra iron, and require for that production the extra coal which the miner wins, supply it in a

large measure for unremunerative purposes, and probably the last deliveries not being paid for, or only partially so, the profit on the whole extra supply comes to be less than would have been realised had the exceptional development in the industry not occurred at all. Extra wages will also have been paid by the iron masters to their labourers, who will in their turn have indulged in luxuries outside the limit which they either can afford, or is in their station of life good for them. Even the successful manufacturers themselves set up housekeeping in castles on a scale vying with the feudal baronial period, when a few persons comparatively speaking, seemed to think that those less fortunate than themselves as regards their inheritance, were brought into the world to act as their slaves and carriers. The owners of coal mines and the rollers of railway rails, exalted into a pecuniary position in which they can hang their walls with the priceless works of Guido, Titian, Corregio, Rembrandt, and the like, while they are a couple of generations behind as regards education and understanding of the duties as well as the rights of property, can be of little use in assisting to work out the problem of a higher civilisation. Rather do people such as these, burdened with duties whose importance they neither understand nor appreciate, retard the proper and useful development of society by diverting streams of wealth

into the wrong channels. As producers of the first rank they are demoralised by their unlooked for large gains, which opens their hearts to those below them, and the injurious tendency to enter upon a scale of expenditure which cannot be kept up, infects all who share in the spoil. Each stratum of workers who are affected by sudden and unnatural demands for commodities, set up a fictitious demand for what each set consumes, and so there is waste and further demoralisation ending in disappointment, and as much being lost in the long run as there is gained. Production in fact, the end of which is waste, sets going a useless creation of purchasing power, because those who buy have earned, in many cases legitimately enough, their buying power through the misapplication of the original means. Some effect will be produced on prices, either in raising them fictitiously, or in retarding a decline which is the result of an absence of legitimate demand.

4. *Undue extension of purchasing power.*

In another chapter we have endeavoured to uncover this part of the subject by showing the operation of a course of demand as affected by the exercise of purchasing power generally by the community. Here we have to look more particularly,

at the more modern influence of the joint-stock company system, in as far as it causes an undue extension of purchasing power, and also an inflation of prices as a consequence. It is unnecessary to go more minutely into the figures which we have already given with reference to the hundreds of millions of pounds which have been subscribed since 1856 for the formation of joint-stock companies on the limited liability system; nor to analyse the reasons for so large a proportion having been wound up. We know that a vast stimulus has been given to industries generally, through the diversion of an enormous volume of capital into new channels which, metaphorically speaking, were before comparatively dry. The prime object with every new company founded on an old business has been to extend that business, and there is no doubt that for some time after its creation every new company has extended its business. The very fact of new blood being introduced into the management and stimulated by larger salaries than those managing the old concern thought proper to pay, more business, whether remunerative or not, would be transacted. If satisfactory results were not immediately obtained they would continue to be hoped for, and renewed energy would be thrown into the work and more floating capital sunk. We take, therefore, proposition number one to be proved, viz. that every new company, whether a conversion of a

firm or a new creation, would be the means of unduly stimulating production generally, not only directly but indirectly. We are of opinion, also, that in consequence of this much more widely and deeply spread stimulus, the reaction will be broader and longer drawn out, in proof of which we may cite the slower recovery after each commercial crisis because there is more to be repaired in the shape of shattered credit and loss of confidence. The larger the concerns which come to grief the more difficulty there is in setting them going again. The failure of a very big and powerful mercantile firm leaves a long trail of discredit behind it, which is injurious to other houses in the same trade in proportion to the number and magnitude of the debts which are only partially liquidated. With limited companies there are important weak points which firms of private partners are much less likely to contain. With private firms failure stamps itself indelibly on the individual partners, whereas in a company responsibilities are so much more spread out, even to the extent of being in a sense shared by the shareholders after they have approved of the periodical balance sheets and statements at public meetings, that when it fails its *personel* is dispersed, and after a time they are found stimulating over-production in some other field as soon as another rising tide of prosperity masks their entry into another sphere. Every single limited company that has entered upon

its career has, even in proportion to the increased business it has transacted, been the means of placing a purchasing power in the hands of individuals beyond what they were fully entitled to as the return for actual labour. Limited liability companies have, in fact, been to the production of commodities what the application of steam was to locomotion with this important difference, that whereas the energy necessary for moving the engine was one of Nature's secret forces cleverly wrung from her, and by the aid of machinery placed under complete control, the energy employed in stimulating production by the aid of joint-stock enterprise has been obtained at a cost which, to a very large extent, on balance neutralises the value of the net gain, although at the time it may not be apparent. In the process of producing by joint-stock enterprise so much time is required to test the capabilities of the combination, and the subscribed capital affords such an effectual means, when skilfully worked, of cloaking undeclared losses, that a company may be a perfect hotbed of mischief as regards the misapplication of purchasing power for years, while during the whole period it is a centre of loss, around which revolve many satellites who consume, but produce little or nothing remuneratively. Any one who will examine the records of companies which have been wound up which we give in Table 2, will find them by the thousand. In every one of these individual cases a

modern device has been used unduly to raise prices, and if it be allowed that when once prices have been raised it is very difficult to get them down again, apart from the question of the fluctuations in the value of the medium of exchange, we arrive at a demonstration that the system of joint-stock enterprise has been used as a lever to place prices generally upon a higher level than formerly, and that the consumer has ever since had a tax imposed upon him for the benefit of those engaged in supplying his wants. As each company has failed and has disappeared with its *entourage* from the scene, so far as those persons are concerned who obtained employment through its aid, and so far, also, as its productive efforts added to the supply of commodities, some of the new props to prices will be knocked down again, but some of the effect will be left, as we know from the efforts to remedy the evil which have been made by the promoters of co-operative stores. Those companies which fail are gone, but many in a weak state remain struggling on, and supporting a rate of unnatural and unremunerative consumption. Anything is done, as we well know, to avoid collapse. Unsound engagements are entered into in all directions to keep afloat. While general prosperity lasts the rottenness can be "carried forward" in the shape of "sundry advances on securities," the latter being carefully coffined in black tin boxes, for which the

banker is not too frequently troubled. The kind of historical reading which managing directors like to indulge in least of all is that relating to inoperative accounts, mortgages on unsaleable property, promissory notes, and bills of exchange, the parties to which are not worth powder and shot. We are not prepared to state that because business in these times is carried on more expensively than it used to be that the reaction is therefore not advancing as regards the accumulation of wealth. What we assert and maintain is, that the modern system of joint-stock enterprise unduly extends purchasing power, and affords a large proportion of the community the means of consuming to a degree out of proportion to what they produce. It may be said, such a state of things must cure itself. So it will in the long run, for the simple reason that if a man consumes more than he produces some one else must pay for it, and what that some one else pays is so much abstracted from the savings of the country, and is so much dead loss.

5. *Loss of Manufacturing Credit Abroad.*

To a manufacturing country like England, any sensible deterioration in the quality of the work turned out is a very serious matter, and the question we have now to look into is, has there been any

sensible loss of credit abroad as regards the articles we manufacture in consequence of the competition of new and larger combinations on the joint stock limited system. We know that other countries have shown of late years a rather strong protective tendency, which has been stimulated by a very natural desire to encourage native industries, and by that means reap some of the benefit which is conferred otherwise on those who would manufacture for them. By suffering the quality of our own manufactures to deteriorate, through whatever causes, we should be rendering a service to those countries which manifest a leaning in favour of protection. Durability, handiness, and finish are what we claim as the superiority peculiar to the hardware we manufacture, and it stands to reason that if other nations are at all able to approach us in these respects as well as in the price, our supremacy is at once in danger. We require no further evidence to prove that as regards our Manchester goods, the manufacturing tricks by which the shirtings, for instance, are unduly weighted, have seriously impaired our credit in the Eastern markets, and have caused them to be glutted with goods which could only be turned into money at a heavy sacrifice. The old and respectable houses no doubt hold on their way knowing full well such a state of things must sooner or later have a violent reaction, but before that occurs much damage is done, not only to the honest

manufacturer, but to the credit of the country at large. What the honest and respectable houses have to fight against is the power temporarily to drive them out of the field which the joint-stock companies are armed with by the subscribed capital they get from those who confide in these new combinations of competitors. It is impossible beforehand to say what is the capacity of foreign markets to absorb new supplies especially if the new companies start their works under the pretence that they are going to uproot an unjust system and give a greater share of the profit indirectly to the consumer which hitherto has been monopolized at his expense by the manufacturer. We know how the prospectuses of new joint-stock enterprises are garnished with theories of this kind, but which in most cases break down in practice. The most notorious instances of this kind of thing are to be found perhaps among the bankrupt joint-stock iron works. The banks of three or four of our large rivers, to wit, the Thames, Clyde, and Humber, for years after the collapse in the iron trade, afforded evidence of the blighted hopes and merited failure which had been the result of the endeavours of schemers whose capacity for business did not extend beyond the power to concoct cunning prospectuses.

We have had a sad experience of the result of high prices for our manufactures, and there is little doubt that the demoralisation among the men,

whose demands have been conceded by the masters up to the point at which in many cases they have gone out on "strike," has been the means of lowering the quality of the work done subsequently at all events for a time.

The first result abroad of high prices for our manufactures is, that some attempt will be made to save the loss which is incurred by paying the foreigner so high a price for the article. An attempt will be made to manufacture for themselves. The government of the country, always anxious to encourage native industries will afford what assistance it can. Machinery will be erected and English workpeople will be got over to superintend. The natives will probably find that no such insurmountable difficulty in manufacturing the article exists as was supposed. With labour cheaper and, perhaps, the raw material also, a beginning will be made that may close the door to the importations from England altogether. Once let into the secrets of manufacture it is much easier to detect the inferior article, and there is good reason to believe that the inferior productions which have been exported in several departments of English manufactures of late years as a result of the greater competition, through the establishment of joint-stock companies, have not only thrown discredit on English made goods, but have, to no small extent led foreign countries to manufacture for themselves. The "strike" organi-

sations are only beginning to feel how their war against capital has been a victory more costly, in a material sense, than defeat. The worst of a strike among labourers is, that once started, there is a stubborn animus imported into the movement which is a dangerous and most injurious element when it has taken a firm hold of the Britisher. The idea of being imposed upon is a thing he would rather starve than submit to. Not even the sobs of a pleading wife, or the emaciation of half clad children will thaw the frozen obduracy of an ignorant miner if he has satisfied himself that he is expending his powers for a master who does not allow him to reap a fair share of the profits.

6. *Injury to Trade by Undue Competition.*

Consumers as a matter of course think there can hardly be too much competition in trade, a *prima facie* consideration seeming to show them that the greater the competition the lower will be the price. It is evident, however, that unless all persons engaged in business or even in any other occupation are able to obtain a fair relative return for their labour, they will be tempted soon to produce what is intrinsically not worth even the reduced price paid for it under the lowering influence of severe competition. We all know that there is always

a tendency in trade to charge excessive prices for commodities, plausible excuses being at all times readily concoctable, to justify the trader in his course of proceeding. Prices, it is true, are sometimes lower, owing to unlooked for circumstances, than the actual cost of production, but these are exceptional, and from the nature of things cannot remain so. The rule is to find quotations for commodities above their actual value. It may almost, in fact, be said that there exists a tacit conspiracy among traders to charge the consumer more than they have really any right to demand. When undue competition prevails in any district it is obvious that one of three things must happen, either the surplus supply must be diverted to other quarters by the migration of some of the competitors, or the consumer must be imposed upon in the sense of inducing him to pay more than the goods are worth, or, thirdly, adulteration must be resorted to as perhaps the worst device of all to enable those who supply the consumer to gain an adequate return on his capital, labour, and experience. In the first stages of undue competition production will be unhealthily stimulated, and all the collateral agencies which are brought into play by expansion in trade, whether sound or unsound, will be set in motion, and exercise a purchasing power for the most part to a useless and unprofitable end. It is a nice question whether a state of advancing civilisa-

tion encourages or retards undue competition generally. The more artificial the social structure of communities becomes, the more difficult it would seem is the labour of erecting and setting in motion the more elaborate machinery demanded by the growing improvements of modern times. Not only is a higher standard of education yearly required in all industrial and commercial pursuits, but the difficulties of starting for themselves by those who inherit little else besides their native wits, becomes continually more difficult. In the attempts that are made by persons thus slenderly equipped there are probably more failures in proportion than in earlier times. If this be a correct inference, considered in connection with the stringent adulteration acts of recent years, it should be to some extent a satisfactory circumstance as tending to purge trade of an unwholesome element productive of little gain and much loss and discontent.

7. *The inflation of credit.*

In endeavouring to ascertain the advantages which have been secured by joint-stock companies, we must find out in the first place, whether or not the new and greater force has in all respects produced better results relatively to the means employed than the old one. It is quite certain that

the joint-stock system gives us permanently more to maintain, and therefore is more costly. Unless we can show that the legitimate demand for things can be kept permanently as much higher than the previously existing demand, as the increase in the means of producing the larger supply is greater also than that previously existing, we are bound to admit that the greater production of commodities, through joint stock enterprise is attended with a degree of waste, which though longer concealed lays the foundation for a more serious commercial reaction than could happen before the introduction of the joint-stock system.

The new joint-stock companies which have been established during the last twenty years, and which may be said now to hold their own, constitute a wedge of producing power driven into the centre of the commercial world. The result of that is, that either the demand for the increased production must increase to a degree which will sustain these new companies, or they must displace an equivalent amount of producing force already existing for the supply of legitimate wants. We may rest assured in the first place, that a very considerable displacement has occurred, more particularly of the weak competitors in the field, and even some of the stronger firms have sought refuge and strength in amalgamation. Even this change in the *status quo* at the entry of joint-stock limited companies was a

very small part of the revolution which has taken place. Profits will have been lowered, markets glutted, capital sunk, a vast amount of energy misdirected, wages raised to a demoralising height to sink back to a demoralising depth, credit feverishly stimulated, and profits made indirectly out of the unfortunate shareholders by a huge disturbance of capital, a vast proportion of which, as the statistics show has been got together, to use a conventional phrase, for a wild goose chase. A small part only of the commercial operations of the present day are carried on without credit being given either on one side or the other. Consequently, a great disturbance of capital with its concomitant effects must produce a great disturbance of credit. Credit will be greatly inflated in other words, and the result will be to confer upon a large number of persons a purchasing power, to which they were not legitimately entitled, the exercise of which would be directly and indirectly a loss and injury to the community. The advantages to set against this, are of course, the benefits which are always derived from admitting new blood into the work of the world, which always tends more or less to stagnate. The introduction of joint-stock limited companies was the means of causing a great revival among the liberal section of the commercial world, the result of which has been the washing away of a large extent of conservative land marks. This has been

especially apparent as regards the banks, one principal reason being, that conservative bankers refuse to show their figures, while the joint-stock banks let all the world see nearly all of what they are doing. Very few people will be found to differ from the remark, that if there are any bankers in these days who refuse to show their position to the people who trust them with their money, they deserve to have the land marks of an obsolete system washed away, and to be left with their antiquated machinery of dusty unopened cupboards, high and dry out of public favour.

The extent to which the credit system, as understood in financial circles, has been abused by joint-stock companies exceeds, probably, anything which the most credulous partisans could imagine. We will take a case in point and endeavour to analyse its credit operations, and the reader can then calculate roughly for himself, by the light of the statistics we have already given from the Parliamentary return, how far purchasing power has been misapplied through the agency of joint-stock companies in the past. We will assume that a limited liability company is established for the purpose of starting a new line of steamers from England to Australia with a capital of £500,000. We will assume that the results of the operations of existing shipowners who run their vessels out and home over the same water has been sufficiently satisfactory to enable

them to place before investigators figures showing a good return on the money employed. The promoters of the supposed new enterprise take care to come before the public with figures taken up to a point at which an increase is still shown, and investors naturally conclude that an increase will continue. Now, it is important here to remark in connection with joint-stock companies as compared with private firms, that the former have not had the advantage of gaining strength in various ways by growing from small things to great things. Joint stock means something large, or there seems to be no object in starting it at all. People are not satisfied to begin on a small scale when they register a company; in fact, anything of the kind on a small scale would not pay the expenses attending the floating of it. Everything joint stock, whether there is room for it or not, must, it is thought, be done on a large scale, not because there are certain to be large profits, but because there are certain to be large expenses. Joint-stock companies are brought into the business world on the same system as if the male part of the business community commenced their career with all the grown up necessities of men, without the strength which experience alone can give. This, it is obvious, is a great disadvantage, for the simple reason that no company of traders, whether large or small, can carry on a profitable business without good business connec-

tions, and these are only to be acquired by patience, assiduity, and the inculcation of a feeling of confidence. A new joint-stock company of traders meets at the outset with a bitterly hostile opposition from the fraternity whose territory it invades, and particularly from the smaller firms, who hate anything big, and have probably enough to do already to stem the tide of existing competition.

If the required capital is forthcoming, what is subscribed is so much abstracted from the existing supply of floating capital, and is an additional turn given to the screw which forces those who at some future time will require to be buyers of credit, nearer to the necessity which they hope to avoid. Such a sum as half a million of money is a large amount of ready cash to gather together and divert into new channels, even in such a large monetary centre as London. What must be the effect when hundreds of new companies are set going, not, it is true, with such an amount of capital in all cases as that, but with sums which, in the aggregate, amount to many millions sterling? The Table 2 we have given shows that in June, 1877, there were companies with a paid up capital of over three hundred millions of pounds, and these had come into operation during the previous twenty years. This would give an average of fifteen millions of hard cash paid up for new joint-stock enterprises in each of those twenty years. This, we admit, is nothing at all

astonishing, if we compare it with the enormous income of the nation. Supposing the national income to reach twelve hundred millions of pounds, the investments in joint-stock companies would only amount to about an eightieth part of the whole income. Or to bring it closer home, a person with £800 a year, if he invested his proportion at that calculation would only put on one side about £10. Supposing the whole was lost it would not be ruinous, and this explains how the community has borne the losses sustained through investments in joint-stock enterprises which have failed without outwardly appearing to suffer much.

It is evident that a new company which has absorbed capital gives rise at once, in many quarters to the need of credit. Many persons borrow in order that they may subscribe. Secondly, the company itself when started, after having worked for some little time with its own capital, will commence to work on borrowed capital. Its name will be used on paper to borrow with, and this will set going a new large ramification of purchasing power for good or for evil. Thirdly, the company will give credit to others in one form or another. Like a new sun, in fact, a new joint-stock company appears above the commercial horizon, shedding its rays over the business world and calling into activity latent energies in all directions. This seems to be highly satisfactory on the surface, but the question

is, to what extent are the new energies profitable? If the company is a Sisyphus labouring to get its stone to the top of the hill, but never quite able to prevent it from rolling down again, all the energy exerted is so much force thrown away, and resulting in so much money wasted.

8. *Abnormal rise in prices.*

This part of the subject we have gone into in another place, and it is only necessary here, further to allude to it in order that the chain of causes and effects which we have laid out for investigation in this chapter may be completed. In going through the heads we have touched upon we come to the inflation of credit, and from that to the consequent rise in prices which results from the undue extension of purchasing power. It is quite impossible, such an enormous mass of capital as we have referred to, could be set actively to work in new channels without giving a great upward impetus to prices. Although the new producing power would largely increase the supply of commodities, as we have endeavoured to show, the new large expenditure of capital upon the means of setting that new machinery for producing going, would much more than consume the extra supply, and a rise in prices would ensue. In fact, the rise in many articles

would precede considerably the appearance of the new supply on the market, because the moment a new joint-stock company starts, a new demand for the various necessaries of the labourers arises at once. If the hypothesis be correct, therefore, that prices in many cases are very easily raised, but are difficult to get down again, it follows that the action of joint-stock companies upon prices generally in unduly extending purchasing power has been prejudicial to the consumer.

9. *Crisis and reaction.*

We have endeavoured to examine some of the results of the introduction of joint-stock limited companies upon the production of commodities, and if our deductions are right we arrive at the conclusion that, on the whole, the revolution has brought with it inferiority of produce, demoralization of the producers, an undue extension of purchasing power, a loss of manufacturing credit abroad, injury to trade generally by undue competition, inflation of credit at times beyond what it reached formerly, and a periodical abnormal rise in prices. We must, however, make the reservation that we are not of opinion that some good has not been done by the substitution of limited liability companies for the smaller combinations of labourers who previously supplied the wants

of home and foreign communities. Some good has undoubtedly been done, and substantial benefits have been derived. Whether good or ill comes of it in a material sense, a stirring up of the stagnation which a rich country is apt to fall into must be attended with some advantages. Capitalists have been induced to part with some of their store as an experiment, and this has undoubtedly contributed to the happiness of a large number of persons who, but for this broad-cast sowing of money in various ventures, would never have had a chance to lift themselves above comparative poverty. Clever speculators and adventurous promoters have had opportunities of which they have made the most, and they have, in the process, not only fleeced the rich but likewise the poor. Much experience has been gained, and although the community is, on the whole, comparatively poorer in a pecuniary sense as the net result of the experiment so far, machinery which was old and cumbersome in many ways has been changed for that of a newer type, which will be better adapted to these times when it has been thoroughly perfected. So far, especially as regards the banks, we think there has been a loss of precision in the management of the work, which can be rectified by the better education of the sub-officers engaged in these institutions. Before new joint-stock limited liability companies are allowed to be launched in the future there should be a more searching investiga-

tion into the objects and purposes of the new venture, and whenever it is discovered that either those connected with it are not to be trusted with the management of other people's money, or that the scheme is a hollow one, it should be met with an uncompromising opposition from the press. A crisis and reaction in commerce will be more intense and disastrous in proportion as the unsoundness has been allowed to gather unseen and to undermine the foundation upon which credit rests. There is no doubt, we think, as we have endeavoured to show in the foregoing remarks, that joint-stock companies have been the means of unduly extending credit and purchasing power, and in consequence have spread unsoundness in trade in a degree before unknown. We believe that the latest commercial revulsion, which has been world-wide, may be put in as evidence in support of this theory. The Russo-Turkish war, no doubt, materially retarded the recovery from the stagnation into which trade had fallen before that deplorable struggle commenced, but we doubt if there would have been much sooner a material revival if that war had not broken out. This impression seems to be strengthened by the absence of recovery in the United States, where the crisis and reaction set in before it did here. It is to be hoped, however, that the protracted process of purification through which the commerce of Europe has been passing during the

past few years will have cleared away the rottenness which was the cause of its temporary decline, and that a solid foundation has been laid for a healthy and more substantial recovery than has yet been witnessed this century.

CHAPTER X.

THE EFFECT UPON PRICES OF THE ERECTION OF MANUFACTURING MACHINERY IN FOREIGN COUNTRIES UNDER THE PROTECTION OF A PROHIBITIVE TARIFF.

It is well known that some foreign governments have for some years past maintained a practically prohibitive tariff on certain manufactured articles, for the express purpose of encouraging the erection of machinery within their own dominions. To a manufacturing country like England this is a circumstance of prime importance. Our object, however, is not so much to endeavour to reason out the effect of such a movement abroad upon English manufacturing industries, as to try and forecast the effect upon prices generally, which may be expected to result from increased competition in the production of articles which are now made for consumers by those who are acknowledged to be able to make them best. Everybody knows that a buyer in these days will purchase in the cheapest accessible market, *cæteris paribus*, whether that market be English, French, German, or American. The purchaser says, "Who will put the commodity of a given quality at my door at the least cost, everything included?"

The object, then, of all producers being to sell in the dearest market, the land of free trade is not likely to gain directly by foreigners making for themselves what they have hitherto bought of us. The larger question, however, is, Will the world gain, including England, in the long-run by an extension of the area of competition? Will all manufacturers be compelled, by the throwing down of more of the old barriers of protection which enriched the favoured few, to satisfy themselves with smaller profits that the consumer may buy at a less cost? We are inclined to think that this question may be answered in the affirmative. The whole history of the world, which anybody may read in the unalterable character of human beings, shows that abuse will flourish more or less where it is not in the interest of all engaged in supplying the consumer with what he requires to be satisfied with a fair return for their labour. Whether one country, which, like England, has been foremost in the race for wealth, loses or gains by a revolution in manufacturing industry is of small moment compared with the rendering of their just rights to the consumers of the world.

An increase in the number of manufacturers is almost sure to be followed by an increase in the number of consumers up to a certain point, because competition brings down prices. This will, however, depend upon the general welfare of the consumer.

If wars, pestilences, or other greatly disturbing elements be at work, a sense of distrust in the future will lay hold of the public mind, and instead of spending, there will be a general disposition to save. Many important industrial and commercial developments on a large scale have been thus checked, just as we see on a small scale how a wet day will delay a rise in the price of public securities.

Although we admit that the erection of machinery in those countries which had previously purchased manufactured goods abroad will by such increased competition among manufacturers bring down the prices of those goods, we must not overlook the broader outline of such a development, which we are very apt to do in looking closely at its detailed working. Falling prices as the result of competition bring in consumers in greater numbers only up to a certain point. All such movements work in ellipses. There is a beginning, a maximum, and a contraction to the minimum, where we get stagnation of price until the consumer gets fresh purchasing power as a result of a good yield of the fruits of the earth. Cheapness tempts people to buy; novelty also tempts people to buy. When there is not necessity the two first are comparatively soon satisfied. Manufacturers, as we know from experience, are in very few cases able accurately to gauge the probable limits of a growing demand. They are in so much haste to

swallow the profit to be derived from satisfying it while it lasts, that they add rapidly to their means of production, frequently with borrowed capital in addition to fixing in plant their growing revenues. The greater the number of manufacturers the keener the competition. What is the effect on prices? Unless the consumers continue to increase in number, and the consumption to augment in volume, it is evident the manufacturers cannot continue to gain a profit upon the additions which they make to their fixed capital. We require no statistics to prove that, although over a long period of time the demand for certain articles will and does increase as the population increases, yet there must be fluctuations in accordance with the rise and fall of the purchasing power of the consumer. Machinery increased to provide luxuries will be a much more precarious investment than that erected to provide what is a daily necessity. Human beings are very capricious in their likes and dislikes as regards luxuries. Moreover, luxuries are only bought to any extent when the wages earned are high; then the profits are exceptionally good. This is why such fancy prices are charged for most luxuries. Manufacturers of fancy articles have to snatch their 200 or 300 per cent. profit when the kind of ware they produce happens to be in fashion. The fashion is like the morning sun. It touches with its life-giving rays and passes on,

leaving those who neglect their opportunities and are not open to its beams to languish and perhaps die.

Competition keeps down prices, and so favours the consumer, but like everything else its development may be injurious when too much forced. We have endless examples of this. Over-trading in all its forms is forced and injurious development. If the ardour of traders and manufacturers could sometimes be checked it would be better for all. Things being too cheap leads to extravagance, debt, and often ruin. At the time we write (November, 1878) manufacturers are in a sorry plight nearly everywhere. In the three or four previous years manufacturing has been overdone. Prices had been raised by a redundancy of currency following upon over-speculation, in its turn based upon good harvests for several years in succession in different countries. The fruits of the earth had been abundant, and upon that all the world turned shopkeeper. There seemed to be no end to the capacity of the consumer. Every branch felt it. First up went the price of one thing more or less, according to the caprice of consumers, and then another, for there is no predicting what kind of luxuries may from time to time come into fashion. Various circumstances may occur to influence the production of the article necessary for the manufacture of a particular kind of cloth for example. Money poured into the

country in payment for iron for the construction of United States railways. It is necessary here to remark, however, that the money first poured out of this country in the form of loans raised on American railway mortgages was raised here and indirectly transferred to the exporters of the railway material. The creation of the railway bonds and the purchase of them by the British public was the motive power. Coal also rose to 32/- a ton. The miners drank champagne—a circumstance which aptly illustrates how the capitalists of Epernay felt the effects of a burst of railway speculation on the other side of the Atlantic. Everywhere, in fact, both in Europe and America the activity in commerce had so increased the volume of circulating medium which was required for the more rapid interchange of a greater quantity of commodities that prices were driven up. Although spread over vast continents it was but a gigantic speculation similar to that which is frequently witnessed in narrower limits in the stock markets. Ever since 1873 prices have been sinking back from the inflation which had been given them. What was set going by solid gains derived from the earth was continued partly through renewed opportunities of amassing further solid gains, but in a much greater degree by the artificial impetus which was being given to the movement by credit based on nothing.

We know that the process by which a country is

supplied with currency is automatic. As the necessity for increased facilities for interchanging commodities arises, the mints are set in operation to supply the required extra coins. Manufacturing industries whose growth is fostered by the State will be the means of creating a demand in a country for the manufactured articles if the times in which they are produced is propitious. We saw how the French *milliards* set the productive powers of Germany going; how prices rose by the impetus which was given to all branches of business; how many persons were deluded into the belief that, because a little extra money flowed into the markets of the nation through the necessity of supplying what the ravages of war had destroyed, an endless era of prosperity had commenced. Here was a conspicuous case of the way in which prices can be fictitiously raised by artificial means. The slim nature of the foundations upon which that development of commercial activity was based was, however, not long in showing itself, and we know the result. Houses by the hundred which had been run up in the suburbs of Berlin in a few months after the movement reached its climax were tenantless, and severe distress among the working classes followed. It is not often that there is such an example of rapid rise and fall in prices generally as was the case in Germany after the war. The nation, as a whole, may be said to have lost its head

like Stock Exchange gamblers seized with a mania for speculation. Communities compelled by circumstances to live extremely thrifty lives are very apt thus to break loose.

In countries where manufacturers are encouraged on the prohibitive tariff system something of the same sort upon a smaller scale will probably sooner or later follow. The stimulus which is needed to produce what would not otherwise be in demand must be paid for out of something—an unreal development is set going which means national expenditure. If high customs duties are raised on imports and applied to the purpose it means a check upon the consumption of those imports. If, as a conseqence of consumers purchasing the home made article, large amounts of capital are laid down in new machinery, there will undoubtedly be a stimulus given to business, as in the case of Germany to which we have referred, and prices will rise, as was the case also then; but the moment the artificial barrier to the entry of the foreign goods which have been kept out by the high tariff is removed, the probabilities are a general collapse will ensue. That this view seems to be well grounded as regards many manufactured articles finds support in the fact that nations are not all equally skilled as manufacturers. It is not in the nature of some people to work up iron into machinery in the perfection which other nations turn it out. The same may be said of

pottery, clocks, bronzes, silk, leather-work, &c. One race, as we well know, is clever in making one thing, and one another. It would seem, therefore, that permanent success could not be expected to attend a forced erection of machinery in a country for the manufacture of one article for which another country had become famous, probably for reasons peculiar to its race and climate. The case of India may be perhaps an exception in one respect, because the cotton manufacturing machinery there would probably be under English superintendence.

CHAPTER XI.

FLUCTUATIONS IN THE PRICE OF PUBLIC SECURITIES.

In entering upon this part of the subject it seems to be necessary to ascertain first what is the position of Stock Exchange securities in the list of articles which the public buy. If we compare them with bread, for instance, we find that what causes the price of bread to rise has an opposite effect on securities. Our fundamental doctrine regarding the rise and fall of all prices, as we have said before, is that their course over a period of time depends upon the well-being or otherwise of the consumer. To prevent misunderstanding, this statement must be qualified. We here assume that the securities to be affected by the rise in bread are more or less sound investments. All general movements are liable to be neutralised to some extent by exceptional circumstances. If at the time of public securities being adversely affected by one or more bad harvests, several foreign governments default on their obligations, the effect will be, as in the years 1874, 5, 6,

and 7, that there will be a large transfer of investments to a higher class of stock. After a fall in securities, as the result of sales occasioned by bad times, there will also be a recovery sooner or later through the employment of idle capital in stocks temporarily, and pending its reabsorption in trade channels when a revival takes place. These are two of the indirect influences by which the prices of securities will be raised during a period when the flow of investment savings as the outcome of real profit has fallen to a minimum, and may be said as regards their aggregate effect upon prices generally to be inappreciable.

Assuming, therefore, that the public is well off, and that from the clear gain which is being made by those who gather the fruits, in its widest sense, of the earth, industries of all kinds are set in motion, in their turn causing to revolve an indefinite number of profitable wheels, the question arises at what stage in the prosperity of the community are the stock markets entered by investors, for speculators cannot force up prices far unless the public follow them? If a man is successful in his business he is generally at first disposed to be prudent, hoping by such a course to be raised in the estimation of those from whom he will probably hereafter require credit; but at the same time a large proportion of the community will soon manifest a desire, when they are making profits, to afford evidence of it to the world. Consequently

the immediate surroundings of the individual which have become somewhat generally dilapidated in bad times, are brushed up and put in such order as becomes a man who feels that he has at last turned the corner, and is earning more than he spends. If this view be a correct one, the first effects of a generally more plentiful yield of the fruits of the earth will be seen in a reviving activity among those industries which supply household effects, clothes, and luxuries of all kinds. However strong may be the desire to save money and invest it, it is only a small proportion of the savings which at the *first* return of prosperity will go direct into Stock Exchange securities—other reasons may be given in support of this view. Bad times in trade have always been preceded by losses sustained through foolish investments, which leave a sting behind. The remembrance of such losses dies a hard death, and Stock Exchange securities do not again come into favour until the effects of that sting have been removed by a recovery of the money lost.

Stock Exchange securities may be termed a luxury. This form of investment can be known and availed of but by a limited portion of the public. That limited portion of the public depends upon the purchasing power of those strata beneath it. If the masses get their wants satisfied at a small cost, they will have more to lay out in the class of luxuries they indulge in. In proportion as they can spend

out of solid earnings, so will production in all its branches be stimulated, and also in proportion will producers and manufacturers get rich. The power then to absorb Stock Exchange securities is derived chiefly from the earth; if that fails, from the base to the apex, all suffer more or less alike except those who occupy the favoured position of being able to live on their interest from land or consols. Consequently, so long as the produce of the earth continues to afford the class who absorb Stock Exchange securities a surplus for investment, we may fairly conclude that prices will rise until other forms of investment come into competition.

Exceptional circumstances will force one class of securities up to a point at which they yield less than others which are intrinsically as good, but are neglected for the time owing to some scare or peculiar whim which has taken hold of the public mind. When such elements of uncertainty as these enter into the question, it becomes at once evident that no hard and fast laws can be laid down for the movements of prices. Observation and experience show us that there must be changes in prices as there is sooner or later in everything in this world; but as the causes of those changes, although recurring pretty regularly and in sufficient force to upset what we may call the normal equilibrium, are never found made up in combinations consisting of precisely the same proportions, we can never have a

complete recurrence of the gradations which have characterised previous fluctuations. We had in 1875, 6 and 7, an instance of the exceptional rise in a certain class of securities by reason of the stream of investment being forced into one corner as the result of scare. The public had lost largely through the bad investments they had made for some time previously, and the consequence was a rush into English and Colonial Government Stocks, regardless for the time of other forms of investment which were quite good, and offered a higher yield in interest. The English and Colonial Government Stocks were forced up like the cone of a mountain in eruption, affording an example of how quick, unforeseen, and considerable, may be the effect of a new cause, and how little resistance the existence of perfectly good available securities affording even a higher yield sometimes offers to a rise thus occasioned. This is to be accounted for by one of the circumstances which is at the bottom of the fiasco made by so many Stock Exchange speculators, who think they can rely on their steadiness of judgment. Investors who are accustomed to hold stocks, either will not trouble themselves, or do not care to look in other directions for the means of safely and remuneratively employing their money. Habituated to that form of investment, they simply rush from one extreme to the other of the same enclosure, without first taking a look over the palisade to see if they cannot get 4 per

cent. or $4\frac{1}{2}$ per cent. for their money with perfectly good security farther afield.

So far we have endeavoured to follow the action of the prime motive power which raises the price of stocks; and we suppose that this power, after having worked its way up through other strata of commodities and influenced them in the same direction, has no further work to do but to repose at the surface in the form of capital which has passed through all the phases of facilitating reproduction until there is at length nothing to do but to offer itself upon the loan market. Money invested in stocks is, we may say, surplus working capital, to a large extent held ready in the most available form. All great monetary institutions keep a considerable sum so employed, and it is on account of this constant support that the highest class of securities is maintained at a tolerably uniformly high price in the absence of a catastrophe which necessitates large realisations.

Classification.

Now in estimating the degree in which Stock Exchange securities are likely to be affected by the various influences which from time to time may be expected to come into play, they must be classified —as should also the influences by which they are affected. It is obvious that what will affect one

security very much will affect another but little, and again others not at all. We will begin at the top with Consols—what affects the stability of the British government will naturally affect Consols. In a minor degree English railway stocks would be disturbed by a fall in Consols, while the shares of the London General Omnibus Company would not move at all. If, however, at the moment of Consols being driven down in price from the cause mentioned, English railway stocks happened to be relatively high in price, and some 5 per cent. or 6 per cent. of the rise had been pushed up by speculative operations, the fall in these securities would be considerable. Bear speculators would see their chance, and would knock off this frothy top which speculation had put to the prices at the expense of those who were the latest buyers. At the moment of Consols being affected as indicated, the position of the English Railway market could just as well be reversed. The declaration of unfavorable dividends might, for example, have furnished speculators for the fall with one of their best opportunities; and that, if it happened with rising discount rates, would have resulted in these stocks being for the time probably unduly depressed. A fall in Consols at such a moment would produce probably little or no effect upon the prices of English Railway Stocks. In fact, a rise might easily follow. Anxiety regarding the relations of our government with foreign powers

checks the employment of capital in business; a fall in good stocks, like English Railway Stocks, would be likely to attract capitalists, so that instead of these securities suffering in sympathy with a fall in Consols, we might just as well have a rise, if not simultaneously, shortly after. We give these illustrations to show that opposite sympathetic effects may be witnessed through counteracting subsidiary influences. In this case tertiary influences may also play a part in either direction according to their nature. It is these interwoven hidden influences which frequently so puzzle people who are too impatient to look beyond the surface for causes.

Classification of Influences.

(1). General condition of trade, and of the great mass of the population.

(2). Extent of the savings of the class which habitually invest a portion of them in stocks and shares.

(3). The condition of capitalists, *i. e.*, whether the course of trade is encouraging them to lay down more floating capital in fixed capital, or whether such a movement is being arrested with a view to increase the amount of liquid capital.

(4). The creation of new investments.

(5). The condition of the loan and discount market both at home and abroad.

(6). The political aspect both at home and abroad.

(7). The season of the year.

(8). The weather.

Let us now make a classification of the principal stocks with a view to investigate more closely how they are affected as regards price by the different influences which from time to time come into play. We have in the annexed table first:

Amount outstanding.	British funds.	Per cent.	Dividend.	Price.	Yield, 1877.
395,883,673	Consols	3	January and July	$96\frac{9}{16}$	£3 3 4
101,373,466	Reduced	3	April and October	$95\frac{7}{16}$	3 3 8
215,203,347	New	3	Do.	$95\frac{7}{16}$	3 3 8
	Indian and Colonial Government.				
15,720,100	Indian Stock 1880	5	5 January, 5 July	...	3 3 6
5,441,000	Do. 1888	4	5 April, 5 October	...	3 12 0
6,484,236	Canada Consols 1885	5	1 January, 1 July	105	4 4 9
4,000,000	Do. 1904	4	1 May, 1 November	93	4 8 9
3,000,000	Do., guaranteed by Great Britain	4	1 April, 1 October	109	3 9 3
2,197,400	Cape of Good Hope 1914	4½	15 ,, 15 ,,	100	4 10 0
400,000	Mauritius 1895-6	6	15 February, 15 August	118	4 8 10
350,000	Natal 1919	4½	15 March, 15 September	99	4 10 6
5,031,500	N. S. Wales 1902	5	1 January, 1 July	109	3 18 10
1,000,000	Do. 1898	5	,, ,,	105	4 12 4
1,000,000	Do. 1903	4	,, ,,	102	3 17 6
6,109,000	New Zealand Consols	5	15 ,, April, July, October	104	4 14 11
6,000,000	,, 5/30s	4½	1 February, 1 August	98	4 12 8
1,250,000	,, 5/30s	5	15 January, 15 July	102	4 8 8
220,000	Prince Edward Island 1903	6	1 ,, 1 ,,	107	5 9 5
800,000	Quebec Province	5	1 May, 1 November	100	5 0 0
1,850,200	Queensland 1882–5	6	1 January, 1 July	110	3 13 3
...	Do. 1913	4	,, ,,	94	4 6 7
778,500	S. Australia 1901–18	6	,, ,,	118	4 12 10
1,000,000	Do. 1899	4	,, ,,	98	4 3 0
552,800	Tasmania 1893—1901	6	,, ,,	117	4 8 2
7,000,000	Victoria 1883–5	6	1 April, 1 October	112	3 12 2
2,107,000	Do. 1894	5	1 January, 1 July	108	4 9 5
1,500,000	Do. 1899	4	,, ,,	98	4 3 0
500,000	Corporation of London	4½	5 ,, 5 ,,	104	4 5 5
8,011,012	Metropolitan Board of Works Stock	3½	January, April, July, October	102	3 8 6
500,000	City of Montreal	5	1 May, 1 November	102	4 17 3
222,720	City of Ottowa	6	,, ,,	100	6 0 0
226,000	City of Toronto	6	1 April, 1 October	104	5 14 1

Applying our classified influences to this class of securities how do we find they affect them ?

No. 1 (influence). When trade is active and capital in demand, as a rule, stocks yielding a small rate of interest will tend downwards in price, because when fear does not enter as a materially deterrent element capital whether liquid or employed in a semifixed form, which is the position it occupies when in a comparatively easily realisable position, always gravitates towards the dearest market. Dear money like a shifting magnet, as it sets up its attractive power first at one centre and then at another, is always pulling down the prices of its competitors in whatever form they exist. The primary effect, therefore, of brisk trade is to draw money out of even the best investments. The first part of this process may be, and generally is, the reclamation of trade capital which has been on strike owing to the dull times. There is, however, only a somewhat varying given proportion of the highest class of stocks that is open to the influence described. By far the greater proportion of the English funds may, as far as this argument goes, be treated as fixed capital, as absolutely as if it were invested in houses, ships, or land. Numbers of the holders of Consols would never think of realising whatever the price fell to. Their object is to secure an income, and are quite indifferent regarding the market price of the English Govern-

ment's credit, so long as they are assured of $3\frac{1}{4}$ per cent. per annum.

No. 2 (influence). As the savings of all classes of the community increase it is obvious that all forms of investment are likely to improve in price through the desire of those who have saved the money to make more by finding employment for it. Of the lower orders we fear in England the proportion who habitually save money is comparatively but a small one. Those who do, however, are little versed in the respective merits of stocks and shares, and being actuated in their search by motives which are probably governed by a cautious, although perhaps ignorant mind, the highest because best known stock is almost sure to be selected. Until they become demoralised by gaining too much, or are tempted into the webs which the spiders of finance train across their path, the lower orders who save and buy securities are almost certain to be found holding good stocks.

Among the higher and more intelligent portion of the saving class there is always greater temptation to spread the savings over a wider and less safe area. At first the most respectable stocks are taken, but as looseness creeps in among the counsels which preside over the regulation of both business and domestic affairs, which is so often the sequel to large profits, so does the desire and even necessity for a higher yield become greater, and

hence the support given to bad securities when traders and their friends have become demoralised by prosperity.

After a first rush of prosperity has placed an increased purchasing power at the disposal of capitalists, two forces will come into play. In the hope that a greater demand for commodities is to follow, the desire may prevail to sink some of the new money in the extension of works, while, on the other hand, the low price which public securities fall to, through the necessities of holders who have to wait out prolonged stagnation in trade, offers a great temptation to buyers. The crisis of 1866 was followed by heavy realisations of securities by the needy, which brought values generally down to a comparatively low level. The return of prosperity, which received a great impetus after the close of the Franco-German war, witnessed the usual recovery, speculators, as on former occasions, taking the lead, followed by the public, as their real and supposed gains afforded them the new purchasing power.

So far as our observation has gone, we think that there are very distinct traces of a new steadying influence having been added to those which previously formed the chief support to the English funds. The extension of the telegraph and of railways abroad in the more remote producing countries has caused during the last few years a

shifting of floating capital employed by merchants into semi-fixed capital upon a large scale. In other words, producer and consumer or manufacturer being brought closer together have, to a great extent, ousted the middle man or commission merchant. The result of this has been the retirement of numbers of middle men and the investment of the capital they have withdrawn from business in stocks and shares. The accumulated savings of this class have, to a certain extent, gone to form part of the capital of the banks which have been likewise undermining and displacing the merchant, more particularly in the East—India, China, &c.; but we may take for granted that business men of long experience would be only likely to place a small part of their fortune in bank shares. We may therefore conclude that of late years new wedges of capital of a staying character have been driven under the price of Consols, New Threes, and Reduced, which make those stocks much harder nuts for speculative operators for the fall to crack than they were formerly. This was exemplified on the outbreak of the Russo-Turkish war in 1876.

No. 3 (influence). As the fluctuations of prices in the stock markets depend for their larger waves of movement upon the course of the greater under-currents, which receive their impetus from the yield of the earth, it is obvious that in proportion

as genuine trade swells in volume so will public securities be affected in proportion to the strength *pro* or *con.* of the subsidiary influences which may intervene. The varying condition of capitalists will exert an influence upon the prices of everything within their reach much in the same way that the sun does upon vegetation according as the actions of its rays are hindered by clouds or not. It is necessary to observe that the act of laying down floating capital and making it fixed will not only for a time overcloud the effect of the prosperous condition of the capitalist upon prices, but will up to a certain limit be the means of creating new investments, which will compete with those already in existence. To use a metaphor, we may suppose these capitalists to be rain-water butts in process of being filled, and that we are waiting for a certain effect to result from an overflow without previously knowing that they were connected with others by pipes. We should wait about the time experience had taught us there ought to be an overflow, when impatience would prompt us to investigate the cause of the delay. Advances and falls in prices are often looked for in ignorance of the fact that hidden pipes are tapping the influences which were expected to come into play. When the liquid capital has filled all the adjacent butts which are being filled as a means of more profitably employing the capital than in

buying securities, then the final overflow may be expected to take the direction of the Stock Exchange, unless the course of events determines the capitalist to go into land and houses.

No. 4 (influence). We are dealing more particularly now with securities of the highest class. People of the highest standing seldom require to borrow money at all. Traders who regulate their affairs on the soundest principles are, as a rule, independent of the loan and discount market. First-class governments, unless forced into a war, have no need for borrowed money. They are anxious to pay off what loans they may have been compelled to contract, and will do their utmost to avoid raising new ones. This being the case, there is little fear, as a rule, of existing first-class securities having to compete with new issues. A government like that of France being obliged to appeal to European money markets to liquidate such a debt as that imposed upon it by the Germans, as a condition of the evacuation of their territory, would seem to be a circumstance calculated to depress very seriously existing first-class stocks. Had not the times been exceptionally propitious there is no doubt that France would have experienced much difficulty in getting together those two hundred millions sterling, and that the endeavour to force the loan would have acted prejudicially on other stocks. All that time Europe was in high spirits at

the speedy conclusion of an awkward war, and traders generally were disposed to assist in the success of an operation which would give an impetus to business; and the result proved that they were right, although it must be admitted that the Germans, to some extent, lost their heads, as people are apt to do when they unexpectedly get hold of a large sum of money.

No. 5 (influence). The effect produced upon the prices of public securities by the changing condition of the loan and discount market may be said to be continuous when the markets are open. As this is, perhaps, the most important branch of this part of the subject and the one which it is most necessary for people to understand who are in the habit either of speculating or of using first-class stocks as a means of temporarily employing their surplus balances, we shall endeavour to open it up more minutely than the others. Whatever substances are permanently plastic in their nature will, according to the degree of plasticity, be capable of sympathising with the movements of any other body, more or less like itself, with which they may come in contact. A tarpaulin thrown upon the sea will take the form of the waves, and undulate in sympathy with the movement of the water. Oil thrown upon the water will more closely still mix its movements with that of the water, because the substances are more closely allied as regards the

plasticity of their nature. Although securities in the form of good stocks and shares are not money, they are both so nearly equally capable of discharging the functions of money within an area where the securities are easily negotiable, and therefore are in their nature very much alike, that the movements in the prices of the two may be said to sympathise like water and oil. The degree of sympathy may be marked off in the case of the substances, as in that of the securities, extreme plasticity being one end and extreme rigidity the other. We might, for instance, work out the metaphor somewhat in the following form:

Water (extreme plasticity)—.	First-class banker's acceptances.
Milk	Consols.
Oil	New Threes and Reduced.
Mud	Government guaranteed securities.
Liquid glue	Colonial Government guaranteed securities.
Long-cloth	Railway stocks and best foreign securities upon which bankers advance.
Blanket	Inferior do. do.
Sackcloth	Third rate do. do.
Tarpaulin	Mining and miscellaneous securities.
Oilcloth	Colonial produce, ships, furniture, &c.
Tin	Rents.
Sheet-iron	Houses.
Plate-iron (extreme rigidity).—	Land.

Now, supposing frost to be capable of converting the substances enumerated into a state of changing rigidity, according to its intensity from extreme plasticity (water) down to extreme rigidity (plate

iron), some such process would go forward as is seen in the markets for public securities in obedience to the changes in the value of money. A slight fall in the mercury would correspond, as regards the effect produced, with the fall in the value of money. The mercury in the barometer would rise and that in the thermometer fall, producing an effect upon the substances in the same way that the fall in money would increase the rigidity of the prices of securities. This being said, it is scarcely nccessary to go into the degrees of movement, either in the cause or in the effect. What we are more concerned with is to try and give some idea by the light of observation and memorially registered cases in point how the *pro* and *con.* collateral effects interfere with the direct influence of the rise or fall in the rigidity of the substance with whose movements we are supposing the prices of securities to sympathise. To return to our metaphor for a moment. Supposing a frost to set in, everything according to its susceptibility is by degrees in a certainly defined order affected by the frost. Without pretending to be able to speak authoritatively on the subject, we believe we are right in saying that the fall in the temperature would exercise its freezing effect upon the substances within its reach without meeting with counteracting influences other than those inherent in and belonging to the substances acted upon. If this be right

regarding the action of frost, it furnishes us with a means of demonstrating how complex are the various collateral influences, *pro* and *con.*, which are at work to upset the calculations of an operator in the stock markets who may base his operations upon the anticipated effect of a rise or fall in the value of money without thinking of anything else. A change in the value of money either way, like the heat of the sun upon the animal world, creates an infinite number of movements in things which have to find a new equilibrium in obedience to each movement in the rates of interest. The following is a list of the more important influences of a collateral nature which may be expected to exercise an influence, *pro* or *con.*, upon securities when money changes in value.

A Rise in the Value of Money.

Bankers and others who may be called on to repay deposits will probably have to sell some of their securities, and prices drop in anticipation of this.

When sales of stock by banks begin prices further recede.

The offer of higher rates for deposits, by competing with securities of a certain yield in interest, lowers their price.

The higher "contango" charge in the stock market causes sales.

Pawned stock comes on the market in a quantity proportioned to the rise in money.

A Fall in the Value of Money.

A fall in money, showing either a larger supply, a smaller demand, or both together, raises the price of the means by which the increased volume may find employment.

Bankers invest a portion of their overflowing deposits.

Speculators for the rise are afforded increased facilities.

Besides what we have specified, it is obvious that, as the value of money rises, so does it come into competition with other forms of purchasing power and as bankers and capitalists offer higher terms for its use, and thereby underbid the yield of other media of employment, so is floating capital sucked from the various channels which are underbid, in the first place into a central heap which we call the market, from there to be redistributed in accordance with the secondary and tertiary collateral influences which from one moment to the other may come into play until the market shall either for a longer or shorter period settle itself down. When all the forces, in fact, which demand on the one hand and supply on the other, have been exhausted to the extreme point of all the reserves they can bring up, then will there be a temporary calm.

Condition cf Foreign Money Markets.

As regards the effect which foreign money markets may be expected to exercise upon any one centre, it is evident, if we confine our view first to the broader outside influences, that more or less the same effects will be produced upon investments in any and all markets now that the means of communication is so perfect, by a scarcity of money at one or all, as was formerly produced

in one market only by a rise or fall in money there; although we hold this to be true, it cannot pass as in so many other cases without qualification. It is obvious that what are known as international stocks, *i. e.* those which are quoted and dealt in at all the principal European centres, will follow more closely the movements of the money market than any others. These stocks have come to be, in fact, a standing portion of the available capitalized purchasing power. They have, in alliance with the more modern economic expedients for effecting interchanges of commodities, occupied the place of so much international currency which would otherwise have settled international debts. These international securities are used as a means of obviating the necessity of paying in cash matured liabilities. A small profit paid to the intermediaries is all that is required to place the liability which has matured on other shoulders, to be paid by them, handed on again to other shoulders, or disposed of by a counter liability which may chance simultaneously to mature and extinguish it. Through the complex action of these *pro* and *con.* international liabilities, which are bought and sold just the same as merchandise, it is at all times extremely difficult if not impossible to make predictions as to the course of the exchanges based upon Custom House figures of imports and exports. It is, in fact, the great multiplication of postponed liabilities around which

have grown onerous charges heaped one upon the other, and resting upon the flimsy basis of unprofitable transactions originating with traders who have little or no capital that constitute the great depression, to use a meteorological phrase, which culminates in the whirlwind of a commercial crisis. A fall in money, therefore, at any centre, will result first in an absorption of the supply of international stocks which is on the spot; subsequently, purchases will extend to other centres according to the terms which each offers to the buyer.

While on this subject of international securities, it may be useful to refer to an erroneous impression which prevails regarding the transfer of money from one European centre to another. We often see it stated that money may be expected to flow from a centre where it is cheap to those where it may happen to be dear. This is of course the natural tendency, but we must recognise the difference between the transmission of money and the transmission of power to buy money, for there is an important difference between the two. The only substances which come strictly under the head of money which can be transferred from France say to England are the precious metals. Nothing which does not circulate as money after its arrival can come under that head. Gold and silver do this after being coined at the Mint and issued, but Bank of France notes, which are just as good as gold at

Paris, are powerless as actual money in London. They can be used however to buy money, like all securities whose marketability is undoubted, and whose value approximately is known for certain. What is meant, therefore, when we talk of attracting money to this centre by raising the rate, is that we shall attract purchasing power in the form of bills drawn either merely for the sake of borrowing for a time purchasing power, or drawn against goods or securities sold to the foreigner, and by that means liberate money and thus increase the supply. When the help from this source has been exhausted, then the dearer expedient of sending the bullion has to be resorted to.

No. 6 (influence). Whatever affects an individual's credit adversely diminishes the purchasing power of his name. The value of a bill of exchange depends upon the credit which the names upon it can command in the market. The credit of a nation, as represented by its government, rests precisely upon the same foundation. It is unnecessary here to go into the question of how a government injures its credit in the estimation of the world. After what has transpired during the last few years as regards the default of so many upon their bonds, a pretty general understanding of the subject will before this have been acquired. The political aspect, both at home and abroad, exercises an influence upon the markets very much

in the same way that the weather does, only the effect produced by the weather never goes beyond a tolerably easily defined limit. The imminence of war between this country and another nation will injure the credit of the government of Great Britain, because war involves vast expenditure and borrowing. The mere suspicion of any such dire calamity is sufficient to depress at once considerably English government stocks, not only because no one can say when circumstances will favour their recovery in price, but because there is an immediate prospect of new creations of stock coming into competition in the market with the old. This is the prime cause of a decline in English government stocks. Second to war with a foreign power comes civil war, which, being one degree less likely to be ruinous, in a correspondingly less degree affects unfavorably the national credit. A change of government causes a fall in government stocks, unless the change be the means of removing a previously existing state of things menacing more acutely the stability of the empire. Whatever, in short, threatens to unsettle the foundations of law and order, and to throw the opposing political parties which form the chilled-steel heads of the legislative chambers into dangerous conflict with each other, loosens the faith of the people in the stability of government and depresses the market-price of government stock. Beyond this we have

the danger of our being affected directly or indirectly by political disturbances abroad, which, according to the nature of them, produce apprehension in the minds of holders of government securities. In these times the telegraphic messages from foreign political centres arrive very frequently. The transmission of these being a business in itself, the result is that no statesman or politician of any distinction utters his views on the events of the day without what he says and its effect upon his hearers being flashed into every money market of importance. Politics may therefore be said to exercise as restless an influence upon the higher classes of government stocks in the chief centres, and also upon the international stocks, as the changes in the value of money itself.

No. 7 (influence). According as the seasons of the year favour activity or cause inactivity, so will there naturally be more or less business done in the stock markets, and the fluctuations in prices will occur in proportion. Human beings are very much like the rest of the creation when the sun shines on them. They come out to bask, and they go farther afield to amuse themselves or to try and improve their worldly position just in proportion to their better means of doing so with impunity. When it is cold and wet all creation, whether human or inhuman, crouches in warm corners and thinks but of keeping what they have for their support until the

more genial weather returns. With some few exceptions all markets feel the chill of winter, and more or less sympathise with the temporary check which foreign commerce receives as soon as the merchant fleets of Northern Europe are ice-bound. So when warm weather returns, the dormant sap of commercial life melts like the ice in the rivers, bearing the liberated ships out to sea, as in the vegetable world it makes its way up the stem and spreads out in the flower.

No. 8 (influence). Close observers of the effects of a change of weather upon individuals will not need to be told that the delicate human system is more or less a living barometer. Not only does the sombre appearance given to everything around us by a clouded sky unfavorably affect our spirits, but, whether we try to will it or not, it upsets our digestions; that is, the digestions of most people. Some people are favoured with the good digestion with which popular belief credits the ostrich. There is, however, sure to be the inevitable compensation in such cases which turns up sooner or later to adjust the balance. Warm weather means a dry pleasant atmosphere which relieves us of the sense of depression which we feel when compelled to exist in an envelope of suspended moisture. As we feel, so are we very much inclined to act. "Call on him after lunch or after dinner" is the advice often given to a friend who wishes to succeed with some business he

has in hand. We once heard a sailor say to one of his mates "Now's your time to ax the captain about that." The ship was steaming out of the Humber and overhauling a rival boat hand over hand, as the saying is. When it rains and the population is seen about the muddy streets with trousers and collars turned up they are thinking of how soon they can get back to their homes. Prices, in fact, in the stock markets may be said to rise and fall very often in sympathy with the mercury and the moisture in the air, and are influenced indirectly by nothing else.

More particularly referring to Consols.

Some writers hold that the fluctuations in the prices of public securities are caused chiefly by the expansion and contraction of credit. That fluctuations are so caused is, of course, true, but we are of opinion that credit is only one of the many influences which are engaged at the same time in affecting the course of prices. As far as the expansion of credit affords increased purchasing power, prices generally will obviously be raised, but an expansion of credit may still be going on to meet liabilities at the same time that it is necessary to realise securities for the same purpose. So, on the other hand, it cannot be laid down axiomatically that a contraction of credit causes a fall in the price of public securities. A contraction of credit may take place, and often has

been experienced simultaneously with a rise if not in all, in a number of stock exchange securities. What may drive one class of the community to do one thing may induce a different class to do another thing. Failures in trade, by inspiring lenders of money and credit with caution, will result in the contraction of credit, and the scaring of capital away from trade channels. A continuance of a state of apprehension regarding the soundness of trade generally will lead to capital being otherwise employed. In such circumstances good securities are the easiest and readiest mode of employment, and if they be not raised in price by such a diversion of capital they will probably not fall. These, however, are more or less subsidiary influences which may be expected to come into play after a steady influence upon prices generally has been exercised by uniform prosperity in trade which results from a good yield, in one or in successive years, of the fruits of the earth. It is quite as necessary to take note of these subsidary influences on prices, which may be termed an after-growth, because they support what we believe to be the true doctrine regarding the fluctuations in prices, viz. that they are to a very large extent due partly to fortuitous and partly to capricious combinations of influences which probably never recur precisely in the same form, and consequently the past experience of them is but to a very limited extent any guide to the future. We fully

admit that dear money tends to depress the price of securities especially while it is growing dear, and that cheap money also, especially while it is falling in value, tends to raise prices. Within narrower limits the same effects will be produced while credit is in the act of expanding and contracting. So fickle, however, are purchasers, and to such an extent are they influenced by collateral circumstances exercising opposite effects upon their minds, that we cannot find ourselves able to admit that either the one or the other of these influences, *i. e.* the rise and fall in money and the expansion and contraction of credit, can be depended upon to exercise invariably the effect which unreflecting experience leads us to anticipate. Experience shows that there are always new circumstances being developed by economic changes as a consequence of the spread of power to influence prices, both for the rise and the fall. As soon as it is discovered that the public have learnt to understand the effects upon the market of certain influences, speculators, whose motto is *nunquam dormio*, will be found at work with some new device intended to neutralize the anticipated effect by fully discounting it.

The contraction of credit exercises an influence in depressing prices for a time within narrower limits than is exercised by dearer money because there is a difference between the action upon prices of credit and cash. If money becomes dear it is an induce-

ment to holders of securities which are at high prices to sell them and lend their money at the higher rates, as they hope to buy back at lower figures. A contraction of credit, although it means a higher price for the loan of purchasing power does not necessarily, to the same extent, involve a depreciation of securities. Banks are the institutions which grant the largest credits in the form of discounting bills and giving advances. When the credit given by banks is curtailed, which is the most material contraction of all, the probabilities are that they sell no securities in the markets at all. The sales will be speculative orginating with quite other people, which exercise but a temporarily depressing effect unless the public can be induced to follow with real sales. The trading firms who require money to meet their liabilities when credit is being curtailed, and they cannot so easily discount their bills, are at length compelled to go to market with the securities which they have purchased with their surplus earnings in their most prosperous days. Scarcity of cash will therefore affect the prices of stocks to a greater extent than a scarcity of credit. While, again, scarcity of credit does not involve an expansion of cash facilities but generally the reverse, a scarcity of cash up to a certain point renders an expansion of credit compulsory, a memorable instance being the suspension of the bank Act of 1844 on several occasions. A want of confidence causes an

expansion of the currency, as we saw again forcibly in October, 1878, when the Bank of England note issue exceeded thirty millions, the highest on record.

When the prices of stocks are rising after a period of inactivity following a commercial crisis, or other catastrophe which has caused large compulsory sales at a time when there were comparatively speaking no buyers, their course upwards will be checked from time to time. There will be numerous conflicting influences affecting the different classes of stocks, the incidence of each prime influence depending upon the nature of the combined secondary and even tertiary influences which happen at the moment to come into play. Take Consols, for instance, at 80, and let us suppose that the country is emerging from the chill gloom of a long period of commercial depression, during which political complications have alarmed holders of the English Funds into parting with their stock until the price has fallen to 80. We may witness some such a movement as the following:

Consols.	
June 1.—80½.	Favorable announcement in House of Commons regarding foreign political complications.
„ 2.—81¼.	Hopeful leading articles in the press.
„ 3.—80⅞.	Realisations by "bulls."
„ 4.—81¼.	"Bears" buying back.
„ 5.—82.	Trade and navigation returns better.
„ 6.—81.	Tone of Russian Czar's speech menacing.
„ 8.—83.	'Golos' explains that no reference to this country is intended.
„ 9.—82¼.	Realisations of speculators.

	Consols.	
June	10.—83.	Purchases by bankers who cannot employ their deposits.
„	11.—84.	Fine day, and little more business doing in trading circles.
„	12.—83¼.	Wet and gloomy.
„	13.—83.	Large operators away, being Saturday; market weak.
„	14.—84½.	Weather finer; foreign telegrams more peaceful.
„	15.—84.	Sales to realise profits by speculators.
„	16.—83.	Alarming rumours abroad regarding certain information which had reached the Government.
„	17.—82.	Large number of hands reported to have been taken on at Woolwich.
„	18.—83½.	Reassuring explanation by Prime Minister in House of Commons.
„	19.—84¼.	Generally better feeling.
„	21.—86.	Favorable telegrams received in the consol market from abroad.
„	22.—87.	These confirmed by press.
„	23.—87½.	Investment buying.

While we were engaged upon this work we came one morning upon the following remarks in a daily financial journal which aspires to educate and enlighten its readers on such matters, "Every variation of 1 per cent. in the price of Consols means a difference of four millions sterling in the market value of this stock, and when it is recorded in city articles that 'the variation in Consols was limited to $\frac{1}{8}$ per cent.,' this seemingly insignificant fraction represents £500,000 difference in aggregate value. Nay, inasmuch as the prices of New and Reduced Three Per Cents. almost invariably follow those of Consols, a change of $\frac{1}{8}$ means a total difference of

close upon one million in the market value of 'the Funds.' It is not surprising, therefore, that the probable course of the market for British Three Per Cents. is a subject that is always canvassed with much interest." This statement is founded upon a complete misconception, and is nonsense. It is worth while to look at this point, for a great many people open their eyes in reading it and exclaim at the bare idea of such a small change in the price making such a large difference in the property represented by Consols. Let us suppose, for example, that the Stock Exchange one day was closed, as is sometimes the case, and that for certain reasons dealings in the street in Consols were entered into at a price $\frac{1}{8}$ below the closing quotation of the previous night, and that the speculators engaged in these operations made their books even by the end of the day, to what extent would the market value of Consols have been affected supposing the price to have next been quoted without change from the closing price of the day when the markets were last open? Not in the least. Apart from what little effect might have been produced upon the public by hearing that speculative transactions had taken place $\frac{1}{8}$ per cent. lower, nothing at all would have happened to injure the value of the stock. These said speculators might in fact as well have played at pitch-halfpence on the pavement by Capel Court. To get one step nearer to the point of our argument. Supposing

the markets had been open as usual, and that the speculation of the pavement had been extended to the inside of the house, and had increased in volume by the aid of those who, more adventurous than the rest, are wont to avail themselves of a rise in the tide of speculation to float a profit into their own pockets. What would have been the effect then, in the sense of the paragraph we have quoted, supposing no *boná fide* holders had been scared into parting with their property while the dip in the price lasted? All the loss which had been sustained would have been by the speculators; the public *boná fide* holders would not have dropped a farthing. The press would have announced as usual that Consols were $\frac{1}{4}$ per cent., or whatever the fall was, lower through bear operations, but at the close the price had fully recovered. Supposing, again, that the circumstances which had tempted the speculators to sell a bear of the stock had been of a sufficiently serious nature to induce *boná fide* sales of stock by bankers and others who hold some of their reserve in this kind of security, and that the day's operations in *boná fide* sales had left a loss to the sellers of £12,000. Provided the price had recovered as in the before-mentioned instances, the only damage which would have been done to Consols as a property would lie in the compass of this £12,000. To take a further illustration. Supposing that the price of Consols, whose depression had induced

those *boná fide* sales, and had caused those who realized to sustain that loss, did not recover at the close of the day, but a fall of $\frac{1}{4}$ per cent. was, what is called established, what is the position of all the *boná fide* holders of Consols then? Simply this, that they are only to the extent of that depreciation in the value worse off *in the event of their being compelled to realize it.* To say that the whole of the amount of Consolidated Three Per Cents. is less valuable by so many hundreds of thousands of pounds every time the price is quoted $\frac{1}{2}$ per cent. or 1 per cent lower is absurd, and we should not have thought it worth while to say so much about it had we not chanced to see such a statement as we have quoted, in leaded type at the top of the first column of a specialist financial paper.

English Railway Stocks.

We have gone *seriatim* through the classified influences, and have endeavoured to show how the highest classes of public securities are influenced by them, and we shall now try to see in what respects a class of stocks outside government guarantee, but depending upon what might in quite conceivable circumstances be an equally good foundation with reference to the yield of interest, are affected generally by those influences. As it might be wearisome

to take each influence over again and apply it to railway stocks, we shall perhaps adopt a course involving less monotony if we compare this class of security with government stocks and government guaranteed stocks, and leave the reader to draw his own conclusions. Nothing can be made of these subjects unless people are willing to reason out the working of causes and effects for themselves.

Preference and Debenture Stocks.

So far we have spoken of the British Funds, and Indian and Colonial Government Stocks. The guarantee of the British Government is at the present time perhaps the best security there is in the world all things considered, and therefore irrespective of yield these stocks in being classified with all others must come first. Readers will naturally ask, however, how is it that English Railway Preference and Debenture Stocks seem to be preferred to Colonial Government securities? Whether or not investors, as a rule, are influenced in their choice by the yield in interest, we see that the former are preferred to the latter for income purposes. On pp. 233 and 234 we give a list of the English Railway Preference and Debenture Stocks from which it will be seen that notwithstanding the fact that Colonial Government securities pay on the average a higher rate of interest, yet the prices of

the English Railway Debenture and Preference Stocks are higher than the Colonial Government Stocks, and the yield on the average less per cent. There are reasons on the surface for this which suggest themselves at once to the inquirer. In the first place investors like to have their security near home in preference to far away. They see and hear how their own railways are getting on, but have a more or less uncertain feeling of confidence as to what may happen to a colony, whether, for instance, the colonists may not think it advisable to cut themselves adrift from the mother country, or overborrow, or get their finances entangled by scheming colonial economists untutored in the consequences of blunders which form the valuable experience of older countries. A large proportion of the holders of the best stocks hold them for the rest of their life, and with a view to bequeath to their clildren or relations benefits equally well secured as those which they have enjoyed themselves. India stock is redeemable in 1880 and 1888, but having the guarantee of the British Government these may be said to be on a par with Consols, although the interest is in the former issue 2 per cent., and in the latter 1 per cent. higher than is paid on the British Funds. A glance down the colonial list will show that all of them are redeemable at fixed dates. The older people get, the farther their ideas seem to shrink back from association with things unfixed or requiring to be refixed.

An old investor who has money returned to him by the redemption of the stock has to find some new investment, and where the choice of first-class stocks is limited he feels uncomfortable about the risk which he runs of getting into something which is less secure. He likes in the winter of his life to be quit of such matters, so that there may be no occasion to alter the descriptions of securities in wills and legacies. Then again, the Preference and Debenture Stocks are less limited markets, and are consequently more easily dealt in. And, lastly, there is the circumstance that besides the Funds, Bank Stock, India 5 per cent., 1880, and India 4 per. cent., 1888, Bank of Ireland Stock, and Metropolitan Board of Works 3½ Stock, Trustees who are allowed to may invest in Railway Debenture Stocks.

Amount of issue.	PREFERENCE STOCKS.	DESCRIPTION. Rate of interest.	DESCRIPTION. Title.	INTEREST. When payable.	At latest prices Say	1877. Yield (approximately). £	s.	d.
3,667,164	Caledonian........................	4	Consolidated Guaranteed Stock	January, July	101	3	19	3
1,204,000	Great Eastern ....†	5	Perpetual Preference, 1863	1 Feb., 1 August	114	4	7	9
1,298,262	Great Northern.................	5	Perpetual Preference Capital, 1849-50 ...	1 March, 1 Sept.	124	4	0	8
3,373,071	Do. ....†	$4\frac{1}{2}$	Consolidated Perpetual Preference Stock	1 March, 1 Sept.	111	4	1	1
5,840,878	Great Western	5	Rent Charge Stock (Perpet. Guaranteed)	1 March, 1 Sept.	$124\frac{1}{2}$	4	0	4
11,505,510	Do.	5	Consolidated Perpetual Guaranteed Stock	10 March, Sept.	124	4	0	8
6,198,014	Do. ....†	5	Consolidated Perpetual Preference Stock	10 Mar., 10 Sept.	122	4	2	0
1,955,860	London, Brighton & S. Coast	5	Consolidated Guaranteed 5 % Stock......	5 Feb., 5 August	124	4	0	8
...	Do. †	5	Consolidated 5 % Preference Stock	5 Feb., 5 August	122	4	2	0
8,589,480	London & North Western ...†	5	Perpetual 5 % Preference Stock	Feb., August	$123\frac{1}{2}$	4	1	0
1,504,981	London & South Western ...†	5	Perpetual Preference Stock, 1866	15 Jan., 15 July	$123\frac{1}{2}$	4	1	0
872,000	Manc., Sheffield & Lincoln...	6	6 % Perpetual Preference Stock...........	Feb., August	146	4	2	2
3,087,306	Midland	4	Consolidated Perpet. Rent Charge Stock	1 March, 1 Sept.	$102\frac{1}{2}$	3	18	1
4,600,177	Do.	4	Consol. Perpet. Guaranteed Preference...	1 March, 1 Sept.	$102\frac{1}{2}$	3	18	1
7,000,681	Do. ....†	5	Consolidated Perpetual Preference Stock	1 March, 1 Sept.	$121\frac{1}{2}$	4	2	4
2,630,000	Do. £16 Shares...........†	5	5 % Preference Shares, 1872, convertible into Ordinary Stock 31st Aug., 1877...	1 March, 1 Sept.	$20\frac{1}{8}$	3	19	6
2,444,129	North British	4	Consol. Perpet. Preference Stock, No. 1...	March, Sept.	100	4	0	0
3,850,198	Do. ....†	4	Consol. Perpet. Preference Stock, No. 2...	March, Sept.	95	4	4	3
6,512,000	North Eastern ....†	*	*$4\frac{1}{2}$ % Preference till 1882, then 4 % in perpetuity	...	103	4	7	5
2,780,731	Do.	4	West Hartlepool Irredeem. Pref. Stock...	Feb., August	102	3	18	5
984,300	South Eastern	$4\frac{1}{2}$	Consolidated Guaranteed Stock (Perpet.)	14 Jan., 14 July	113	3	19	8
2,640,820	Do. ....†	5	Consol. 5 % Perpetual Preference Stock	14 Jan., 14 July	122	4	2	0

Amount of issue.	DEBENTURE STOCKS.	DESCRIPTION.		INTEREST.	At latest prices	1877. Yield (approximately).		
		Rate of interest.	Title.	When payable.	Say	£	s.	d.
1,977,905	Caledonian	4	Debenture Stock	15 May, 11 Nov.	104	3	16	11
1,510,000	Great Eastern	5	Irredeemable 5 % Debenture Stock A	1 Jan., 1 July	126	3	19	4
4,389,437	Great Northern	4	Debenture Stock	15 Jan., 15 July	106	3	15	6
3,616,308	Great Western	4	Do.	15 Jan., 15 July	105½	3	15	10
3,723,288	Do.	4½	Do.	15 Jan., 15 July	115	3	18	3
2,079,968	Do.	5	Do.	15 Jan., 15 July	128	3	18	2
3,268,110	Lancashire & Yorkshire	4	Do.	January, July	106	3	15	6
1,306,239	London, Brighton & S. Coast	4	Do.	30 June, 30 Dec.	106	3	15	6
3,135,079	Do.	4½	Do.	30 June, 30 Dec.	115	3	18	3
5,241,000	London, Chatham & Dover	4½	Arbitration 4½ % Debenture Stock	15 Jan., 15 July	112	4	0	4
14,341,543	London & North Western	4	Debenture Stock	15 Jan., 15 July	106½	3	15	2
1,000,000	London & South Western	4	Do. A	10 Jan., 10 July	106	3	15	6
2,358,908	Manc., Sheffield & Lincoln	4½	Do.	1 Jan., 1 July	114	3	18	11
1,191,541	Metropolitan District	6	Do.	6 Jan., 1 July	150	4	0	0
6,564,543	Midland	4	Do.	January, July	106	3	15	6
6,114,104	North Eastern	4	Do.	1 January, July	106	3	15	6
873,116	North London	4½	Do.	10 Jan., 10 July	115	3	18	3
4,281,577	South Eastern	5	Do.	14 Jan., 14 July	128	3	18	2

† Dividends contingent on the profits of each separate year.

Ordinary Stocks.

It is obvious that where several classes of stocks derive their yield of interest from the same source preferentially, their respective values will be determined in the eyes of investors by their priority of right. A railway, for instance, which has a number of preference stocks ranking for dividend one before the other in a fixed order down to the ordinary stock which comes last for dividend will enjoy that amount of credit and confidence in proportion to its ability to meet the interest upon all its different stocks. While the preference stocks may be as safe an investment practically as Consols, the ordinary stock, from its being the last served, may be and often is as the price currents show, a security which none but speculative buyers of securities will touch. This being the case, ordinary stocks in that position will be affected more by a class of influence which induces speculators generally to operate than by one which more particularly causes a movement in the price of securities of a high class. The influence which acts the quickest and most effectively on the ordinary stock is the announcement of an unexpected increase in the net profits of the company. The watching of the revenue returns or traffic receipts is a business of itself, to which no inconsiderable number of persons devote their time and attention with a view to operating in the stock markets either

as a "bull" or a "bear" according to circumstances. There is a wider difference between the character of ordinary railway stocks than there is between the better classes of the securities of the same company. A line which has been well managed and fortunately laid out, lifts its ordinary stock almost into the preference class of other and inferior companies. A reference to the annexed table of English Railway Ordinary Stocks will show this.

ORDINARY STOCKS.	DIVIDENDS ON ORDINARY STOCK. Calculated at rate per cent. per annum. When payable. About	1874. 1st Half-year.	1874. 2nd Half-year.	1875. 1st Half-year.	1875. 2nd Half-year.	1876. 1st Half-year.	1876. 2nd Half-year.	1877. 1st Half-year.	1877. 2nd Half-year.	1877. YIELD (approximately). At price Say	Yield. £	s.	d.
Caledonian	9 April, 1 October	2	5½	6¼	7¼	6¼	7	6¼	...	123	5	7	9
Glasgow & South Western	March, September	2½	3½	4	3¾	4	4¼	4¼	...	105	4	0	0
Great Eastern	24 Feb., 1 Sept.	Nil	Nil	Nil	1	Nil	1½	Nil	...	...		?	
Great Northern	9 March, 9 Sept.	5½	8¼	5½	7½	4¼	6¾	4	...	118	4	11	1
* Do. (£1,159,275) *Deferred* A	9 March, 9 Sept.	5	10½	5	9	2½	7½	2	...	112	4	4	10
Great South & West Ireland	February, August	5	5	5¼	5½	5½	6	5½	...	128	4	9	10
Great Western (*Consolidated*)	1 March, 1 Sept.	4	5	3¾	4¾	3¾	4¼	3½	...	101	3	14	3
Lancashire & Yorkshire	1 March, 1 Sept.	6	6½	6	6	5½	6¼	5¾	...	134	4	9	7
London, Brighton & South Coast	5 Feb., 5 August	1½	6½	2¾	7¼	2¾	7¼	3	...	126	4	1	4
Do. (£1,417,840) *Preferred* B	5 Feb., 5 August	...	...	5½	6½	5½	6½	6	...	136	4	8	3
Do. (£1,417,840) *Deferred* A	February	...	...	4%	year	4%	year	...	...	117	3	8	5
Lon., Chatham & Dover (*Arbit. Stk.*)	...	Nil	Nil	Nil	Nil	Nil	Nil	Nil	...	...		Nil	
London & North Western	23 Feb., 22 August	6½	7¼	6¼	7¼	6	7¼	6	...	146	4	10	9
London & South Western	1 March, 1 Sept.	4¾	6¼	4¾	6½	4¾	6½	4¾	...	129	4	7	3
†Manchester, Sheffield & Lincoln	January, July	½	3	1	4	¾	3¾	1	...	82	2	17	11
Do. (£997,690) *Preferred* B	January, July	1	6	2	8	1½	7½	2	...	122	3	17	10
Do. (£997,690) *Deferred* A	January, July	Nil	Nil	Nil	Nil	Nil	Nil	Nil	...	...		Nil	
†Metropolitan (£4,016,730)	31 Jan., 31 July	2½	3	3¾	4	4	4¼	4½	...	118	3	14	2
Metropolitan District	...	Nil	Nil	Nil	Nil	Nil	Nil	Nil	...	...		Nil	

ORDINARY STOCKS.	DIVIDENDS ON ORDINARY STOCK. Calculated at rate per cent. per annum.									1877. YIELD (approximately).			
	When payable. About	1874.		1875.		1876.		1877.		At price Say	Yield.		
		1st Half-year.	2nd Half-year.	1st Half-year.	2nd Half-year.	1st Half-year.	2nd Half-year.	1st Half-year.	2nd Half-year.		£	s.	d.
Midland	1 March, 1 Sept.	$5\frac{1}{2}$	$6\frac{1}{2}$	6	6	5	$5\frac{3}{4}$	5	...	125	4	6	0
North British	28 March, 28 Sept.	Nil	$1\frac{1}{2}$	4	$4\frac{1}{4}$	$3\frac{1}{2}$	4	2	...	93	3	4	6
North Eastern Consols	17 Feb., 28 August	$7\frac{1}{4}$	$9\frac{1}{4}$	$8\frac{1}{4}$	$8\frac{3}{4}$	7	$7\frac{3}{4}$	$6\frac{1}{2}$	...	151	4	14	5
North London	February, August	5	5	6	6	6	$6\frac{1}{2}$	$6\frac{1}{2}$	...	153	4	5	0
North Staffordshire	February, August	1	$2\frac{1}{2}$	$1\frac{3}{4}$	$2\frac{1}{2}$	$1\frac{1}{2}$	$2\frac{1}{4}$	$1\frac{3}{4}$	...	64	3	2	6
South Eastern	30 Jan., 1 August	$3\frac{1}{2}$	$6\frac{1}{2}$	$3\frac{3}{4}$	$7\frac{1}{2}$	$3\frac{3}{4}$	$7\frac{1}{2}$	$3\frac{1}{2}$	...	128	4	5	11
† Do. (£2,239,370) *Preferred* B	30 Jan., 7 August	6	6	6	6	6	6	6	...	139	4	6	4
† Do. (£2,239,370) *Deferred* A...	30 Jan., annually	4	year	$5\frac{1}{4}$	year	$5\frac{1}{4}$	year	...	...	120	4	7	6
‡Lon., Chat. & Dover, $4\frac{1}{2}$ Preference	Year ends 30 June	1·8·6	year	1·17·6	year	1·16·0	year	2·14·0	year	83	3	5	0
‡Metrop. District, 5 % Preference	February, August	2	1	$2\frac{1}{2}$	3	4	3	5	...	113	3	10	10

* The option of dividing the Ordinary Stock of the Great Northern Railway into A and B (Deferred and Preferred) expired April, 1861. (Division not effected on same terms as Clause 13 of "Regulations of Railways Act, 1868.")

† Holders of London, Brighton and South Coast, Manchester, Sheffield and Lincolnshire, Metropolitan, and of South Eastern Ordinary Stocks, may divide them into Preferred and Deferred at any time within the *first half of any year*. The dividends on the Deferred Stock are payable only on the completion of each year ending 31st December.

NOTE.—Clause 13 of the "Regulations of Railways Act, 1868," enacts:—"Any Company which in the year immediately preceding has paid a dividend on Ordinary Stock of not less than 3 % per annum, may, pursuant to the resolution of an extraordinary general meeting, divide their paid-up Ordinary into two classes—PREFERRED Ordinary and DEFERRED Ordinary."

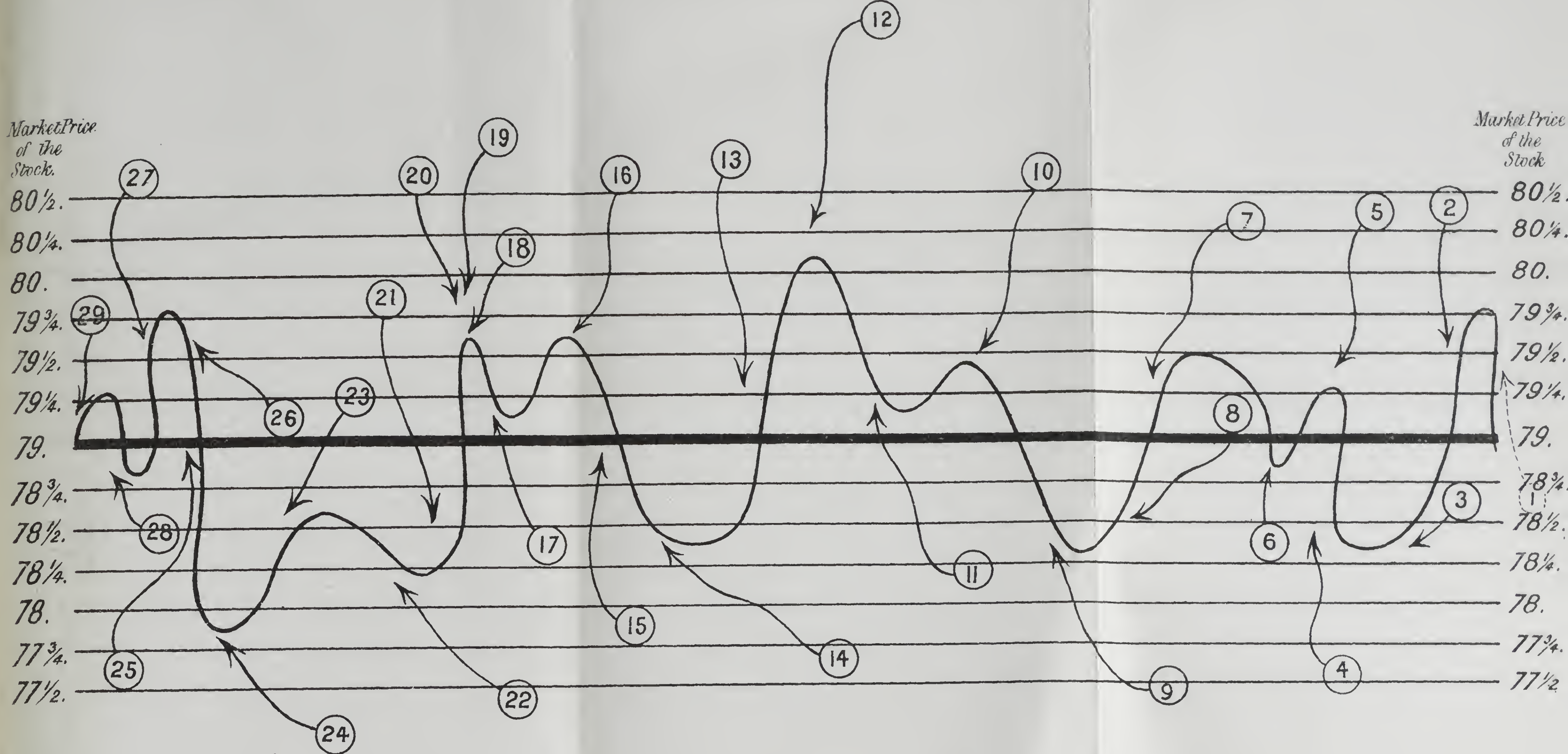
‡ Dividends on London, Chatham and Dover $4\frac{1}{2}$ per cent. Preference, and Metropolitan District 5 per cent. Preference Stocks, only paid out of available net profits of each year ending 30th June.

Foreign Government Stocks.

The securities of foreign governments, again, form a class which will sometimes be affected not individually, but as a body, by influences which cause no appreciable movement in either railway stocks or English Government Securities. We might easily give a list like that we have made out for Consols, but as it might with equal show of reason be indefinitely varied we do not consider the remarks we make would be in the least strengthened by such an illustration. We have studied elaborate charts and diagrams showing the movements of stocks under varying influences, but beyond their being useful as showing the past history of the price of a security we attach little value to them. So far as we have fathomed the question the interest for the statistician lies underneath what the diagram shows. Each movement to a certain point at which the price remained as indicated for each day, for example, is the result of cross-fires of influences. If these were recorded, which is almost impossible even while they are occurring, and quite impossible afterwards, we might be able perhaps approximately to guage the relative pressures of different influences. Each influence as it becomes operative by inducing a buyer or a seller to act, is operative not only as regards its effect in inducing a greater or less number to act, but also in proportion to the effect which is

produced upon those who are the holders of the securities. Further, it is operative according to the power of the person or set of persons who may happen to be influenced to affect the market. The disposition of different sets of persons to operate will vary according to circumstances. They will be checked or stimulated in their action according to the opposition or encouragement they meet with when they are about to set their determination in operation. Until each one who acts, in fact, has actually caused his broker to deal for him, there may be as many influences besieging his mind and unsettling his judgment as there are minutes in the time from which he first contemplates acting until the thing is done. Then we have another element in this stock market which has a voice, at all events at first, in affecting the course of a price which is peculiar to it, viz. the jobber. He stands between buyer and seller. The question with him is, if he buys from a seller or *vice versá*, what are the probabilities of his being able to make his book even, leaving a profit for himself. His course of action will depend obviously upon the effect produced upon his judgment by the result of the conflicting influences.

RUSSIAN LOAN OF 1873.



FLUCTUATION DIAGRAM.

EXPLANATION OF THE DIAGRAM.

The price of Russian 1873 stock opened at a certain date at 79 when we have the following succession of influences and counter-influences during the day, which drive the price above and below the central thick line, which represents the level of 79 at which the stock was first quoted.

Influences.

1. Rise to $79\frac{3}{4}$ on favourable news from the seat of war in the East of Europe.

2, 3. Sudden drop to $78\frac{1}{2}$ on realisations by bulls, followed by bear operations (3), which further depressed the stock to $78\frac{3}{8}$.

4. Sharp recovery to $79\frac{5}{16}$ on buyers coming forward.

5. Bear sales again drove the price to $78\frac{7}{8}$.

6. Speculators who had sold at $79\frac{3}{4}$ and $\frac{1}{2}$ took their profits, and forced a recovery to $79\frac{1}{2}$; when

7, 8. The appearance of a second edition of the 'Times' announcing a repulse of the Russians (8), followed by speculative sales caused a relapse to $78\frac{3}{8}$.

9. Orders to buy from Berlin supported by other bears taking their profits drove the price up to $79\frac{7}{16}$.

10, 11. Renewed bear sales caused a drop to $79\frac{3}{16}$; but the strong opposition from the foreign buyers (11), carried the price up to $80\frac{3}{16}$.

12, 13. At this point flat prices were received from the Paris bourse which gave the speculators for the fall a good opportunity. The Berlin buying orders having been executed the resistance to the onset of adverse speculators gradually diminished as the highest point of the day was reached. The dealers in the market showed some hesitation at taking any great amount at that figure, and there was a retreat on the part of the jobbers to the somewhat safer ground of about $79\frac{1}{2}$ (13), at which point bargains were completed. As fast as the sales could be booked on came the bears, the only object being to "get in" as the saying is. Headlong went the price until $78\frac{3}{8}$ was reached, when

Influences.

the speculative rush having exhausted itself there was a calm, until some of the bears of the weaker type becoming fidgetty about their profits, after a somewhat severe reaction begun one after another to buy back.

14. Bears buying back pushing the figures up to 79; when

15. Renewed foreign buying aided by further bear realisations carried the price up to $79\frac{5}{8}$.

16. Here a smaller reaction to $79\frac{1}{8}$ was caused by some vague rumours from Vienna regarding the preparations of Servia to commence active operations on the side of the Russians.

17. A special telegram in one of the evening papers favorable to the Russian arms caused a rise to $79\frac{11}{16}$; when

18, 19, 20. Orders to sell which were known not to proceed from speculators, together with speculative sales on French account (19), and fresh bear sales on this side (20), drove the price rapidly down to $78\frac{1}{2}$; when

21. The announcement of the failure of a "bull" of the stock further depressed it to $78\frac{1}{4}$.

22. Here there was a gradual reaction by speculative realisations until $78\frac{5}{8}$ was reached; when

23. Telegrams from Berlin showed that the optimist views of the morning had been followed by the speculators for the rise in that market assuming a less confident attitude which weakened the support in this market, and the price dropped to $77\frac{7}{8}$.

24. This was followed by a sharp upward movement just towards the close of business on buying orders from Holland, which frightened in some of the bears, who are a very sensitive fraternity, preferring less but certain profit, and a good appetite for their dinner, to something larger in the bush which in such business often grows dangerously near a precipice.

25. At this point the day's work may be said to have been done. The news to be looked for from the different quarters had come to hand. The adverse speculators had nothing more to look for from the chapter of accidents which might favour their cause. Like all irregular troops they are very apt in such circumstances to set each other a running to get out of indefinite danger. Moreover, however much speculators enjoy the excitement of great expectations, they

Influences.

prefer to go home of a night leaving their banker's balances to repose upon empty powder barrels in the shape of even books so far as they can.

26. The former together with this influence, No. 26, may be given to represent the operations of bear speculators whose movements in the first case, are the cause of a fresh wave carrying the price up to $79\frac{7}{8}$.

27. Some adventurous spirits are always to be found where activity and excitement are the characteristics of any branch of business, and there will be speculators of this special type who will have courage and energy left to enter into new bargains when others are satisfied. The decline to $78\frac{7}{8}$ is due to the last bear raid of the day but one.

28. Realisations before the close of business put the price back to $79\frac{1}{4}$, when a few sales brought the figures back to the same point from which they had started.

CHAPTER XII.

THE PRIVATE CREDIT SYSTEM THE CURSE OF ENGLAND.

When business generally is bad in England we always get a crop of nostrums from some enthusiastic philanthropists who fancy they have discovered the true remedy for the disease of languishing trade. We have had the pleasure latterly of making the acquaintance of some gentlemen who are exerting themselves to inculcate the doctrine that money-lending is a sin, and that money-lenders should be hunted out of society as a pest and a nuisance. Now as the position these gentlemen take up is inside the province of the subject of this chapter we propose to have a little talk with them. Without covering any more paper with preliminaries we beg leave to state that in our humble opinion these gentlemen have not fundamentally examined the thesis which is the object of their attack. They maintain that money-lending is wicked and sinful, and they cite numerous passages of holy writ in support of their argument. What is their contention? They say usury is sinful. What does usury

mean? A usurer, from the French *usurier,* is one who puts money out at interest. There were once usury laws which forbade money being lent on the security of real estate at a higher rate than 5 per cent. These statutes have been long ago abolished, and the lender is allowed to get what he can for his money as for any thing else he has to sell. The practice of money-lending may be divided into two sections, and it is quite right to look at these from different points of view, and quite illogical to mix them up and use arguments in favour of the one section which properly belong to the other. We have first: lending to the poor, which is a charitable act; and secondly lending to him who can and ought to pay interest just as he pays half-a-crown an hour for the use of a cab and horse. With all due deference, our friends seem to us to mix up the two sections and to misapply the scriptural injunctions which they cite. For instance, in Exodus xxii, 25; Leviticus xxv, 39; and Deuteronomy xxiv, 19, the application is to money lent for the *relief of distress*, and what is there stated does not apply to money advanced to the borrower that he may improve it. There is a vast difference between these two theses. The 42nd verse of the fifth chap. of Matthew says "Give to him that asketh (of) thee, and from him that would borrow of thee turn not thou away." The application here is clearly to money lent for the relief of distress. Where there has been

express agreement, the law of England always allows interest. By a comparatively recent Statute 3 and 4 William IV c. 42 s. 28, a jury may add interest at the ordinary rate on all debts payable under some written instrument. If not distinctly specified it may also be allowed if notice has been given in writing that interest will be charged. The whole spirit and intention of the common law of this country has therefore been changed, and it is now fully recognised as the right of a person holding such an instrument to recover some consideration for the use of a certain amount of purchasing power which has entailed a loss to himself through the withholding of it from him. Sir I. Child in his 'Discourse on Trade' says, "There may be no commutative injustice, while each retains a mutual benefit, the usurer for his money, the borrower for his industry" which sums up the arguments *pro* and *con.*, placing the usurer's business upon a distinct basis and quite apart from lending as a charitable act. That the Bible precepts draw such a distinction is also evident, in proof of which we may refer to the parable of the talents. "Well done, thou good and faithful servant," is addressed to the servant who had gained 100 per cent. by lending out his five talents, while to the one who hid his in the earth his lord answered, "Thou wicked and slothful servant, thou knewest that I reap where I sowed not, and gather where I have not strawed; thou oughtest therefore

to have put my money to the exchangers, and then at my coming I should have received mine own with usury."

The truth as regards this question is, that an entirely erroneous view of the business of money-lending has come down to us, and remains crystalised in the judgments of some people through a mistaken view in early times of some of the enactments of the Mosaic law. It was as late as the reign of Edward VI before the erroneous impressions were removed. Having held its sway over the entire nation down to so late a period, it is not perhaps surprising that some among us are still imbued with sentiments which are no longer to be found in the law of the land. Calvin we are told was one of the first to expose the error and injustice of such opinions. Under the usury laws the rate of interest was fixed at eight in the reign of James I. During the Commonwealth it was lowered to six, and in Anne's reign to five, where it remained till 1839, when the law was abolished. Those who, with our friends, are opposed to money lending *in toto* would of course sanction a re-enaction of these usury laws. If they disapprove of money lending they would approve of any measures which even limited the power of dealers in money. But what will they say to the remark that the remedy they would apply is worse than the disease? What do they say to the statement which we find in one authority "It is now

admitted that the operation of such laws (usury) tended only to raise the real rate of interest by driving men in distress to adopt extravagant methods of raising money. The bonuses thus paid being really and in effect an addition to the nominal interest."

To us therefore it seems quite clear that to get a right view of this question we must divide it into two sections as we have said, and look upon lending money as having two distinct significations; one is for a charitable purpose, and the other is a commercial operation.

We are of opinion that wrong views are taken of money lending, in a commercial sense, through a wrong understanding *in limine* of the meaning and function of money-lending. If we put the act of lending money (pecunia) out of the question and look at precisely the same service rendered in a different way, the operation is at once divested of the immorality with which some people seek to clothe it. A man, for instance, who objects to an individual lending another person £50 for a month at 5 per cent. interest to enable him to thrash out his wheat by the aid of a steam thrashing machine, for the use of which we will suppose he would pay that sum, would see no harm in the number of men who could do the same work with their flails being lent for a consideration in the shape of a certain portion of the thrashed corn.

The friends we have referred to think no ill of a person who sets up a grocer's or linendraper's shop and sells his goods at 15 per cent., 25 per cent., or 50 per cent. profit; they see no harm in that; but if a man offers to sell so much purchasing power, which is precisely the same thing in a different form, at the same rates of profit, he is to be hunted down as a wicked and sinful usurer. Supposing, for example, that bales of cloth and beads were the money, in this country as it is in Africa, our friends would see no harm in selling that at 25 per cent. profit. In Africa, for example, Mr. Stanley gave the poor benighted blacks a few pounds of beads, worth about say ten shillings, for an ivory tusk. Jew money-lending is nothing compared to that; sixty per cent. interest is nothing to the profit made by the barter of the beads for the ivory. There was no money in that African business, and yet the commercial operation was carried out just as a merchant in London would discount his bill at the bank at 6 per cent. for three months and buy 100 chests of tea. The money-lending involved in the discounting of the bill is, our friends say, a heinous sin to be visited one day with the wrath of God in the shape of a deluge which is to purge from the city such an infamous trafficking in money.

We come now to the part of our subject which we intended to lead up to, and which may be very briefly summed up, viz. the curse of the private

credit system, which stands at the head of this chapter. The money dealing is innocent enough. There is, in our humble opinion, no particle of sin in that, where there is fair dealing, which is the only kind of dealing we now recognise as part of this discussion. The value of money, as everybody knows, depends upon the demand in relation to the supply. If a borrower goes to a respectable establishment he will pay the market value of the commodity he wishes to buy. If he goes to lenders of bad repute he is cheated, just as he will be if he is sold adulterated tea, or any other article. These are, however, collateral issues, which do not affect the main argument.

What is a real evil is the private credit system, and it is very largely owing to this pernicious system that illegitimate money lending has fixed so bad a repute upon a department of commercial business which is just as legitimate as a baker's, a butcher's, or a grocer's when properly conducted.

English people who have lived for any length of time in continental countries, know well enough what a marked difference there is in the credit systems of those countries as compared with England, and to what injurious proportions it has attained with us. The evil is, we believe, to a great extent the outgrowth of large communities. Ready money business is in the very nature of it, one which is associated with operations upon a small scale. A

merchant who himself has to pay cash must in the beginning ask cash for what he sells. This is the first point removed from barter. When he gets rich he can afford to give credit, and so the credit system expands. We English have been too enterprising in this respect, and the enormous proportions to which the credit system has extended with us constitutes a new departure in economic science which unhappily is the worst economy nine people out of ten can practice. If all our good housewives went every morning with a maid and a basket to the public market, and returned with it laden and paid for, how much less weeping and wailing there would be over the Christmas bills!

What does the credit system as we know it lead to? It leads to the necessity of borrowing what can only be repaid with difficulty—often with great difficulty. This is the point at which we come into contact with illegitimate money-lending. It is at this point that so many people take up their stand and denounce money lending as a sin. But the sin is on the side of the prodigal or wasteful borrower. Those who are helped out of their difficulties mostly abuse those who help them, and hence it is that money lenders, as a body, both good and bad, are so frequently denounced by some people as a curse.

The credit system is further abused to a large extent owing to the universal rivalry, which is another branch of the new departure. This prevalent

vice causes tens of thousands to spend more than their income. Almost everybody, in fact, who can get credit takes it, the result being that the bulk of the community gets gradually what is called behindhand with the world. Sooner or later the disease assumes an acute form, escape from which is only possible by a return to rigid economy. We have thus a demonstration that the use of one of the most valuable devices for promoting enterprise generally may be so perverted as to lead to its being denounced as a curse instead of rejoiced over as a blessing.

END OF PART I.

5

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